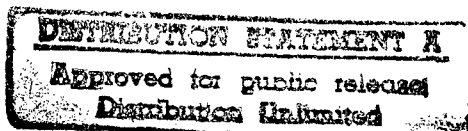




# ***JPRS Report***



# **China**

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# China

JPRS-CAR-91-060

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30 October 1991

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## NATIONAL AFFAIRS, POLICY

### Panel Discusses Role of Market in Economy

92CE0022A Hong Kong CHING-CHI TAO-PAO  
[ECONOMIC REPORTER] in Chinese No 36, 9 Sep 91  
pp 10-12

[Article: "Need To Expand Market Regulation To Get Out of Economic Predicament—Excerpted From Panel Discussion on the Present State and Future Trend of Chinese Market Regulation"]

[Text] *The steady expansion of market regulation in the process of changing the configuration of China's economy has resulted in the market mechanism playing a greater role in the allocation of resources and in the operation of the economy as a whole.*

Virtually all of the major reform actions China has taken so far have been both directly and indirectly related to this main line of reform. The kinds, scale, and percentage of command plan products have been steadily cut back; price restrictions have been removed on some commodities as part of price reform, leaving them to be decided by market forces; and in the commodity circulation field, multiple channels and the autonomous operation of diverse economic sectors have been put into practice. These reforms have directly widened the scope and area of market regulation.

In an effort to understand and explore the present state of growth, problems, and prospects for China's markets, on 29 August this newspaper's Beijing office invited a number of scholars to hold a *Panel Discussion on the Present State and Trend of Chinese Market Regulation* to exchange views on the aforementioned problems. Participants in the panel discussion included Guo Shuqing [6753 2885 3237], a doctor of economics, Li Xiaoxi [2621 2556 6007], deputy director of the Economics of Finance, Trade, and Materials Research Institute of the Chinese Academy of Social Sciences; Li Youpeng [2621 3945 7720], advisor and research fellow in the State Council Developmental Research Center; and Gao Haiyan [7559 3189 3601], a doctor in economics from the State System Reform Commission. Excerpts of the statements of these four scholars are published below.

### Deliverance Lies in a Sound Market System

Guo Shuqing: Reform and opening to the outside world introduced the market mechanism, which resulted in a tremendous gain in vitality for China's economy; nevertheless, it cannot be denied that during the past more than a decade problems have risen in the form of a loss of overall control, structural imbalances, and inequitable distribution, etc. A heavy price has been paid, yet as of the present time, serious hidden dangers remain in the economic operating mechanism. Other reasons aside, the existence of these negative factors are very much related to the means of market regulation employed at the present stage. The reason is very simple, namely that China's market system is still very incomplete as of the

present time. In some ways it is seriously distorted, and in some ways it remains extraordinarily brittle. Solution to the problem is obviously not elimination and limitation of the market mechanism, but rather the building a new type planned commodity economy that strengthens the market system and perfects market regulations, using regulations suited to market operation as a basis for developing a macroeconomic regulation and control system.

During the past more than 10 years, growth and development of China's market system might be said to have been extremely swift. From products to services, from capital to technology, from labor employment to land use rights, and in virtually all the realms of a commodity economy that lend themselves to exchange of equal value, a definite number and percentage of market relationships have formed. Likewise, however, a universal phenomenon was that market coverage was not complete in every realm (granted that specific circumstances differ in different realms). Thus, an expansion of individual markets is preferable to the building of new markets.

A fine foundation is already in being for the development of China's market system, and conditions in all regards are also extremely favorable. For the near future, there are two fairly prominent main tasks: One is continued perfection of commodity markets, emphasis on solution of the problem of the "two track system" of prices for the means of production. Since the supply of consumer goods is ample and prices are stable, but prices of the means of production within plan have universally fallen once again, difficulties and obstacles to unified commodity markets have greatly abated. The second is accelerated development of financial markets, emphasis going to the formation of long-term financial markets in keeping with economic development. Savings accounts show a sustained rise, and the overall level of savings in the country is high. Large amounts of idle capital are in being. However, because of the lack of development of long-term capital markets, translating savings into effective investment is extremely difficult. Thus the normal cycling of the entire national economy suffers. Building long-term capital markets requires reform of the banking system and the opening of fixed asset loan markets on the one hand, and an expansion of the scale at which negotiable securities are used to raise capital on the other for the building of a strong stocks and bonds issuance and transfer market. In the process of building a long-term financial market, full attention must be given to social security system reform in order to bring into being a steady, long-term source of funds. Naturally this will create extremely favorable conditions for the development of a labor employment market. In addition, development of a securities market is bound to affect and promote reform and perfection of the enterprise property rights system. Thus, in essence, perfection of the market system requires a comprehensive intensification of reform.

### Full Confidence in Maintenance of a Market Reform Orientation

Li Xiaoxi: That the Chinese economy has remained vigorous in the midst of difficulties during the past two years is attributable, to a very large extent, to the orientation of market reform, which has relied on the common efforts of various economic sectors and is also indebted to the extremely great role of market regulation. It is in this respect that China's reform is unique.

It must be realized, however, that China's market regulation plays its role in a not fully developed environment that requires further reform for the genuine establishment of a market operating mechanism. The imperfection of the market shows up notably in the following four regards: 1. Uneven market development. Means of livelihood markets developed fairly quickly, and their market regulation role was also fairly effective. Means of production markets were somewhat tardy in development; financial markets and real estate markets have just gotten underway and are still not up to standard; and labor markets are way behind and unable to get started. They remain in a kind of spontaneous state. 2. Lack of market integration. The walling off and carving up of markets between one administrative region and another keeps out the products of other provinces and does not permit products in short supply in one province to leave the province. Thus, strenuous efforts are made to sell the surplus products of one province in another. This way of doing things flies in the face of the laws of a commodity economy and ultimately damages the interests of each province as well. Many reasons account for this problem, the principal one of which is the financial contracting system whereby administrative units artificially treat differently the sale of local products and products from elsewhere, thereby creating obstacles to trade. 3. Confused market regulations. During the change over from the old to the new system, problems arose between plan and market regulations. This caused great problems and turmoil for enterprises' production operations, and it also occasioned rampant illegality in commercial operations. Problems with controllers activities were also prominent, with the result that equal conditions were lacking for market competition, and worse yet was the appearance of behind the scenes problems in regulation that were neither plan regulation nor market regulation. A sort of bribery economy existed that lacked any principles and rules or regulations to speak of, and which was destructive to the growth of markets. 4. The most serious problem was the absence of a central market entity. The imperfection of the market operating mechanism was, to a very large extent, a combination central market entity - enterprise problem. Today, enterprise reform is in a difficult stage in which one-third of all state-owned enterprises are losing money and are finding life difficult. The biggest problem in enterprise reform is enterprises' lack of operating autonomy. The property rights of enterprises and the state have not been straightened out. Until this problem is solved, enterprises cannot have a correct reaction to market regulation and they cannot become central market entities.

In recent years some people have begun to suspect the orientation of market reform. They suppose that the tumultuous situation in the markets results from the orientation of market reform and because there has been too little government intervention. This is a mistaken view. In fact, the many problems of markets result not from too much market growth, but from insufficient market growth. They are not the result of too little market intervention, but rather improper intervention and too much intervention. We must constantly summarize experiences in reform, adhere to the a market reform orientation, and further perfect the socialist market system, striving for the establishment during the 1990's of a new socialist market economy system. There are reasons for full confidence in this regard because of the following: 1. In both the 10-Year Plan and the Eighth Five-Year Plan, the central government emphasizes the necessity for and the importance of further reform and opening to the outside world for a greater strengthening of the socialist market system. This will have a far-reaching affect on the Chinese economy during the 1990's. 2. Twelve years of reform have built a preliminary framework for market regulation in which commodity markets are the main entity. Market regulation is playing an ever greater role in China's economic life. This is an economic foundation that no subjective force can reverse or change. 3. We already have a fairly profound understanding of the positive and negative influence of market regulation. Although we cannot suppose that the market is a panacea and deny the role of macroeconomic regulation and control, neither can we reject market regulation, regarding it as something unique to capitalism. We must correctly handle the relationship between the market and plan. This will make China's future market growth more healthy. 4. The reason for the good feeling about market development prospects during the 1990's is that the people support the orientation of market reform and benefit from reform. This provides a deep mass basis for reforms that create more markets.

### The Role of Market Reform Will Expand Quantitatively and Rise Qualitatively

Li Youpeng: In the process of reconfiguring China's economy, one clear main line was taken in fact, and that was the steady expansion of the scope of market regulation, thereby enabling the market mechanism to play a greater role in the allocation of resources and in the operation of the entire economy.

Virtually all of the major reform actions that China has taken up to the present time have been directly or indirectly related to this main reform line for a steady cutback in the kinds, scale, and percentage of command style products. Price reform removed restrictions on some commodity prices, allowing them to be set by market supply and demand forces. In addition, the independent operation of multiple channels and various economic sectors has been practiced in the commodity circulation field. These reforms have directly widened

the scale and the area of market regulation. The delegation of property rights and reform of the investment system, as well as the pluralization of main investment entities have brought about a marked strengthening of the role of market regulation signals in guiding the direction of investment and the allocation of resources.

Thanks to 12 years of economic reform, great strides have been made in the scale of market regulation and the climate and conditions for the market mechanism to play a role in the operating mechanism of China's economy. Today both agricultural by-products and industrial consumer goods used in daily life, as well as industrial wares used as means of production are controlled and influenced by market regulation to a large extent. It is roughly estimated that more than 50 percent of the output value of approximately 70 percent of all social commodities are regulated by the market.

Accompanying the steady widening of the rule of market regulation has been a huge increase in the operational flexibility of China's economy. Marked results have been gained from the thrust of market reform. The change in enterprises' production and business activities from traditional plan control to market demand guidance linked producers and consumers directly, thereby spurring the updating of products and readjustments in the product mix as well as technological progress. The speed of development of China's industrial consumer goods markets and rural country fair markets in cities, and the abundance of commodities was unprecedented in the country's traditional planned economic system. This event was directly related to expansion of the role of market regulation.

In the process of widening the role of market regulation, China also encountered a number of perplexing problems. One such was in the realm of primary industrial products where the existence of two different prices for the same product and the double regulation system made business dealings chaotic and commodity flow disorderly. Market regulation changed, becoming a mix of market regulation, interpersonal relationships, and administrative interference, which decreased the effectiveness of market regulation and gave rise to social problems in the form of unfair distribution. Another example was the cut-throat competition, the administrative monopoly, and the cutting up of the market that occurred in the widening of the market regulatory process. Trade barriers between one region and another, and cutting up of the market increased with each passing day. In addition, the degree of market regulation in large- and medium-size state-owned enterprises was markedly lower than in township and town enterprises, wholly foreign owned enterprises, and joint venture enterprises, as well as in small enterprises. Enterprise control by two different regulatory systems in the same competitive market was the main reason for the lack of vitality and the relatively slow development of large and medium size state-owned enterprises.

Some of the foregoing problems that arose in the process of introducing market regulation in China were attributable to the shortcomings of market regulation itself, but most of them stemmed from system reform not having been completely put into effect and economic relationships that had not yet been straightened out. Looked at in terms of the Eighth Five-Year Plan and the deepening of reform envisioned during the next 10 years, continued appropriate widening of the role of market regulation remains a main component of reform. At the same time, however, study of and efforts to solve problems that have already cropped up in the process of widening market regulation, restricting their negative role on the economy, and attempting to advance the formation of standard and unified markets and a market system are also problems urgently in need of solution. Actions currently under consideration in this regard are as follows:

1. Better and more complete plan guidance and macro-economic regulation and control to create in the aggregate a relatively stable economic climate that favors market growth.
2. Increasing the degree of market organization as a means of spurring the updating of markets, and to make a transition from a primary level spontaneous market organizational structure to a modern market organizational structure.
3. Improvement of market regulations and making of laws and regulations.

Without doubt, the role that market regulation will play in China's economic operating system during the process of intensifying reform will not only be a quantitative expansion, but a qualitative improvement as well.

#### **Advances in the Commercialization of China's Economy Irreversible**

Gao Haiyan: Markets have played, and are continuing to play an ever increasing role in China's economic life. The state-owned economy in China has declined from 80 percent of the total economy prior to reform to about 55 percent now. Statistics show that price restrictions have been removed on more than 80 percent of product categories nationwide. These products account for about 60 percent of GNP and for 80 percent of all commodities in society. In microeconomic life, between 60 and 70 percent of the production of industrial enterprises is based on orders, and enterprises buy 70 percent of their raw and processed materials through markets. Nationwide, there are more than 70,000 country fair markets engaged in the sale of agricultural by-products, and nearly 1,500 agricultural by-products wholesale markets.

The rise and development of markets has infused vigor and vitality into the development of China's economy. To a certain extent, they have become a force to be reckoned with in the regulation of production and the circulation of commodities. One can say with certainty that China's economy has already taken a course toward the development of a commodity economy. Advances made in commodities playing a greater role in China's economy are irreversible. This is something that cannot

be changed by anyone's will. However, China's commodity economy is still at a preliminary stage of development. The level of market growth and the degree of market organization are both still fairly low; the market system is still not on a completely sound footing, and the volume of market dealings is still small and in a decentralized state. Overall, however, city and country markets are mostly limited by commodity markets, markets dealing in the elements of production, and particularly by labor markets. Capital and technology markets have developed fairly slowly and are lagging. To a very large extent, this situation influences and limits the role of markets overall function in the allocation of resources. It results in a two-dimensional widening of China's economy at a low level. In addition, this will lead to excessive competition at a low level among enterprises and the allocation of resources at a low level of efficiency. If things go on this way, they will obstruct China's technical progress and the improvement of its industries, China's commodity economy consequently languishing at the small-scale commodity economy stage for a long time.

The incompleteness of the market system greatly influences and restricts development of China's economy during the 1990's as well as the entire historical process of modernization. In an overall sense, China's markets are not too much, but rather too little developed today. The function and role of the market mechanism has not been used too much, but rather it has not been applied to the full. China's economy remains very much affected today by the insufficient development of markets and the imperfection of the market system.

In the current process of accelerating the development of markets and shaping the market system, solving problems of vitality in state-owned enterprises and changing their operating mechanism, thereby turning them into independent commodity producers holds extremely important significance. Thus, it is necessary to carry out the reform of the state-owned ownership rights system in an active and steadfast way, separating state-owned enterprises' ownership rights from operating rights, and placing this separation in a necessary legal framework that strictly defines the rights, responsibilities, and benefits of owners and operators in holding and using assets. This will enable enterprises to shape a system of economic behavior that ensures responsibility for assets and limits benefits, and of autonomy in operation and responsibility for their own profits and losses. By creating an external environment and conditions in which enterprises are geared to markets and are in charge of their own operations, enterprises will gradually free themselves from direct government intervention and control to take part in market competition as independent commodity producers becoming principal players in the market.

Demolishing the walled-off pattern in which state-owned assets and key production elements are unable to circulate will require reform of the state-owned assets control system. A thorough separation of state functions will

enable the state's control of state-owned assets to change from control of materials to control of value; a change from control of individual state assets to control over the make-up and total amount of state assets; and a change from direct control of state-owned assets to control of the property rights of state-owned assets. In addition, the methods that developed western nations use to adjust state-owned assets in being must serve as a guide for the prompt readjustment of the realm of state-owned assets activities and of the focus and scope of state-owned enterprise operations as economic development warrants at different times. This will enable state-owned assets to be employed at all times in the fields, industries, and trades that most help spur overall national economic development in order to make fullest use of their basic and leading role in development of the national economy. The redirection of state-assets in being, and the commercialization and valuation of key elements of production will promote and quicken both the development of China's key production elements markets and the perfection of the market system, which will help readjust and optimize the make-up of assets in being, and the industrial structure of the entire national economy. This will make for greater growth of China's markets, and greatly advance the development and prosperity of China's market economy.

### 15 Cities Hold Conference on Economic Reform

91CE0761B Chongqing TIGAI XINXI [SYSTEM REFORM NEWS] in Chinese No 13, 5 Jul 91 pp 34-35

[Article by Tang Jian (0781 0256): "Eighth 15-City Conference on Economic Reform Held in Qingdao"]

[Text] Qingdao in May. Red tile roofs, blue sky, white clouds... The Eighth 15-City Conference on Economic Reform was held here. More than 30 delegates from Beijing, Tianjin, Shanghai, Guangzhou, Wuhan, Nanjing, Chongqing, Xian, Shenyang, Harbin, Dalian, Shenzhen, Changzhou, Shashi, Qingdao and the three cities of Ningbo, Changchun, and Xiamen, which are cities under jurisdiction of counties, attended the conference, and comrades from the State Restructuring of the Economic System Commission (SRESC) and from the Economic Restructuring Commissions of Shandong and Shaanxi provinces also attended upon invitation. Lu Yonghua [7120 8673 5478], deputy director of the Comprehensive Planning and Limited Experiments Division of the SRESC, also attended the conference and delivered the "Report on Overall Trends in China's Reforms." The greater part of the report was devoted to analyzing and describing the current status of reforms in China and the next step in rural reform, urban reform, enterprise reform, price and circulation system reform, macroeconomic reform, and wage system reform. The conference lasted from 16 May to 18 May, during which time the delegates shared their views on the current economic situation, how to revitalize large- and medium-sized enterprises, how to develop an outwardly oriented economy, how to plan and formulate local reforms, and issues related to housing reform.

The delegates generally agreed that as reforms have intensified, the pace of economic development has picked up in all localities, but economic benefits to enterprises remain low. About 30 to 50 percent of all enterprises operating within the state budget in most cities are losing money. In the face of difficult economic circumstances, localities everywhere have acted in accordance with central government instructions by paying greater attention to reform and striving to overcome current difficulties by furthering reform.

*1. Changing enterprise operation mechanism is the key to revitalizing large- and medium-sized enterprises.*

It was apparent at the conference that the slump among large- and medium-sized enterprises continues to be a major problem. The direct cause is the fact that not only has the autonomy which had been accorded to enterprises failed to take root, but it has been reclaimed from them on various pretexts. The various localities have already taken active steps to deal with this problem. Tianjin Municipality is planning to carry out an experimental reform in 50 enterprises. Enterprise leadership systems, organizational structures, wage systems, technological progress mechanisms, and operational mechanisms will be reformed in order to revitalize these enterprises. There are now great numbers of enterprises in Tianjin Municipality asking to participate in this experimental reform.

Shenyang municipality has decided to choose a number of enterprises to implement foreign-invested enterprise management techniques on a trial basis. Without changing the nature of ownership, the principle of "to each according to his work," fiscal or tax revenue channels, or enterprise jurisdiction, the municipality will allow enterprises to draw freely upon the management techniques used in foreign invested enterprises. The enterprises will decide on their own systems of labor, reward and discipline, and distribution. Enterprises will be allowed to structure and staff their firms as they choose, and they will be granted a relatively high degree of autonomy over hiring and firing, implementation of the state plan, and pricing. There will be no maximum or minimum wages in these enterprises. With the approval of government tax agencies, these enterprises will be allowed to help their employees out with bonus taxes and wage adjustment taxes. Shenyang Huaguang Light Bulb Factory chose a money-losing workshop to carry out this experiment, and in the first month, its economic benefits doubled while its number of employees was reduced by one-third.

Qingdao municipality will choose 10 large- and medium-sized enterprises in different categories to carry out autonomous operations on a trial basis in which they take responsibility for their own profits and losses. For the most part, they will be drawing upon operational and management techniques used in foreign-invested enterprises and township enterprises. These enterprises will be granted a relatively high degree of autonomy with respect to their systems of leadership, hiring of workers,

distribution, and production and operations, and they will be granted more freedom than regular enterprises. Those enterprises that lose money will have to make up for the losses themselves, and when losses are so severe that it is impossible to continue production and operations, they will be merged with other enterprises. Enterprises that have fewer assets than liabilities or which are unable to repay debts will go bankrupt according to the "Enterprise Bankruptcy Law."

Guangzhou and Shenyang are dealing with the problem of aging equipment, backward technology, and scarce funds by using assets to attract foreign funds, and they are bringing in funds, advanced technology, and scientific management practices by transferring partial equity rights, engaging in joint ventures, and leasing out business operations.

*2. Mergers Will Be the Primary Method of Readjusting Enterprise Organizational Structure.*

In Wuhan Municipality, 178 enterprises have been merged with 156 others, and a total of 335,445,000 million yuan in assets as well as 31,689 workers and staff have been transferred from weak enterprises to strong ones. The municipality now has five enterprise merger markets, and the former situation, in which people spoke of "the three things which never change," has been changed. There have been 76 mergers between enterprises under different forms of ownership, five mergers between enterprises in different districts, and 30 mergers between enterprises in different industries. After an enterprise merger in Shenzhen, permanent workers stay with the enterprise while the future employment of contract workers depends upon the mutual consent of both the enterprise and the workers.

*3. The Key to Trial Implementation of the Shareholding System Is the Formulation of Policies.*

Shanghai, which is preparing to carry out a shareholding system on a trial basis in a small number of enterprises where conditions are ripe, is currently drafting the "Method for Trial Implementation of Limited Stock Companies in Shanghai Municipality" and the "Method for Trial Implementation of Limited Stock Companies With Mixed Chinese and Foreign Ownership in Shanghai Municipality." Shenzhen Municipality has strengthened its regulation of the securities market and has formulated the "Temporary Provisions on the Taxation of Stock Transactions and on Appreciation of Individually Owned Stock." It has eliminated the illegal curb market and has implemented a title transfer system which requires the registration of one's national ID. It has made prices and transactions public, has strengthened its guidance of market reporting and public opinion, formulated a closing price system and has provided unified regulations on a weekly opening price for stock. The municipality has increased the number of securities exchange sites from three to twelve, stepped up



efforts to build a securities exchange center and a securities registration corporation, and issued strict prohibitions against internal fund raising and public stock offerings that are unauthorized by the People's Bank.

*4. In the Effort To Revitalize Market Circulation, Chongqing's "Four Openings" Attract Interest.*

Early this year, Chongqing implemented a "four deregulation" policy (operations, prices, allocation, and hiring) in 90 state-run commercial enterprises (note: Reported earlier this year in issue 10 of this publication). The sales, profits, and taxes of these enterprises increased from January through March at a much faster pace than they did for other enterprises in the commercial supply system as a whole. Next, Chongqing will extend this experiment to retail and wholesale enterprises and will utilize the "four deregulations" spirit in some special industries. This experiment in Chongqing was universally praised by the conference delegates, who expressed the hope that relevant departments would attach importance to the "four deregulations" experience, and that efforts to revitalize large- and medium-sized enterprises would be carried through to fruition. Tianjin Municipality has taken measures to encourage industry and commerce to work together to develop markets. Joint operations and joint marketing have been established, and combined production and marketing wholesale groups have been set up on a trial basis, as have interregional commercial firms and materials wholesale groups.

*5. Housing Reform Is Advanced in Localities Everywhere.*

The approach toward housing reform in Guangzhou goes as follows: "Start by selling housing, raise rents one step at a time, issue corresponding subsidies, and implement a new system for the allocation of new housing." Beginning last year, a unified public housing rent standard was implemented throughout the municipality. The renter receives a subsidy from his or her work unit equivalent to 40 percent of rent for an apartment of that floor size according to the rent standard. For housing larger than standard size, rent for the extra floor space is set at a level which will just offset costs. New housing or unoccupied older housing may be sold first and then rented, and the new renter will deposit a sum of money (calculated on the basis of floor space) with the proprietor. The rent deposit will be no less than 20 yuan per square meter of floor space. Guangzhou municipality has so far sold 20,000 units of public housing totaling 1.3 million square meters of floor space, and good results have been attained. Shanghai, having carried out a simulated reform, built upon this foundation last May by officially implementing the housing reform plan. The municipality intends to carry the plan through to completion in three steps. The first step includes: promoting public accumulation funds; raising rents and issuing subsidies; requiring that people who are allocated housing purchase bonds; extending special treatment to those who purchase housing; establishing a housing regulation committee; and raising rents to a level sufficient to offset

maintenance costs. The second step includes raising rents enough to offset costs, and charging enough rent to make a profit on housing which is larger than standard sizes. The third step calls for raising rents high enough to assure a slight profit. Subsidies will be issued to workers and staff according to a given standard, and reasonable housing prices will be determined. People will be encouraged to save money to purchase housing. Direct sales of housing will be increased, and housing will gradually be converted into a commodity.

*6. The Pace of Opening Up to the Outside World Will Be Accelerated.*

Shanghai Municipality has a number of items on its agenda for the 1990's, including: development of the Pudong district; development of the outwardly oriented economy; special emphasis upon strengthening enterprises, particularly large- and medium-sized enterprises; making the municipality's economy more open to the outside world and cultivating new mechanisms; and considering the adoption of a reform strategy which approaches reform, opening up, and development as three aspects of a single issue. Guangzhou municipality has introduced a strategy for opening up which calls for the establishment of industrial zones which use economical technologies, processing zones which use foreign funds, economic zones which are open to the outside world, and industrial zones which use high technology. Shenyang Municipality has come up with a strategy of using opening up to spur reform, upgrading, and reorganization.

During the conference, delegates carried out wide-ranging and incisive discussions on a range of issues, including: how to enable cities under jurisdiction of counties to play a role in macroeconomic regulation and control; how key cities are to play their role; how cities under jurisdiction of counties are to handle their relationships with their provinces; and the development of enterprise groups. Finally, it was decided in the general session to hold next year's annual meeting in Shenzhen.

## PROVINCIAL

**Liaoning Jointly Funded Plant Begins Production**

OW0410133791 Beijing XINHUA in English  
1237 GMT 4 Oct 91

[Text] Dalian, October 4 (XINHUA)—The Dalian-Morgan Refractory Materials Co. Ltd, one of the largest of its kind in the world, began production today in Dalian, Liaoning Province.

The plant was jointly funded by the Morgan Crucible Co. Plc. of Britain and the Dalian Refractory Materials Plant. The new plant, which covers over 7,000 square meters, required a total investment of over eight million U.S. dollars.

Once in full operation the plant will produce over 50,000 tons of refractory materials annually, of which 70 percent will be exported.

Bruce Farmer, president of Morgan, said here today that the sincere cooperation between his company and the Dalian plant will ensure success and prosperity of the joint venture.

Export contracts for the plant's products which are valued at over three million U.S. dollars were signed at the opening ceremony.

## FINANCE, BANKING

### Journal on Shanghai Securities Market

HK2409014591 Beijing JINGJI YANJIU in Chinese  
No 7, 20 Jul 91 pp 38-48

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[Text] In the wake of reforms and opening up, China began running its securities market in 1981 when it issued state treasury bonds. At that time, Shanghai only acted as an agent for the treasury bonds, but was unable to issue or transact any securities issued by Shanghai enterprises. In 1984, China's urban reforms reached a new stage. By the end of that year, Shanghai's first stock company—the Yanzhong Industrial Company—was established. Later, the number of enterprise stocks, long- and short-term bonds, and financial bonds issued in Shanghai increased with each passing year. By the end of 1990, as many as over 2,000 Shanghai enterprises had issued enterprise stocks totaling 1,810 million yuan; short-term financial bonds totaled 1,530 million yuan; and stocks totaled 1,150 million yuan, including listed stocks worth 80 million yuan held by more than 5,000 individual shareholders. At present, there are 48 agencies, 23 transaction counters, and four securities firms; and China's first securities exchange is in Shanghai. After investigating and analyzing Shanghai's securities market, we conclude that the specific reasons for the formation of a securities market in Shanghai, being China's industrial city with majority of its economy under state planning, were different from other areas, particularly the Shenzhen Special Economic Zone. Such differences suggested that objectively, there was a necessity for the emergence and development of a securities market, be it in an area marked by a thriving market mechanism or in key cities where the planned economy occupies the dominant position. It was an outcome of

commodity economic development at a particular stage. In the wake of intensifying China's reforms in economic structure, as well as its development of commodity economy, the functions of the securities market in economic construction, and the relations of such a market with macroeconomic operations would be gradually strengthened. This requires us to update our outdated concepts about securities market and to work out various appropriate policies, laws, and regulations regarding the securities market, to promote its development in a healthy and steady manner. In this way, China's commodity economy will be further boosted and our economic reforms will be further intensified.

### I. Why Shanghai's Securities Market Was First Developed When the Economy Was Declining

The situation in securities markets throughout the world, particularly those in Asia-Pacific region, which surpassed the oldtimers even though they were latecomers, suggested that securities markets rose rapidly when the economic growth rate increased and when the market mechanism thrived. This was because a rapid economic development gave the basic conditions for having a great demand for securities; and such market mechanism provided the necessary mechanism and environmental conditions for having active securities transactions. Nevertheless, these two conditions were very weak in Shanghai. Though the municipality was the largest industrial one in China, it has faced many difficulties in recent years. For successive years, its growth rate of output value was 2 to 3 percentage points below the state's average level and was even less than 50 percent of that achieved by Guangdong, Fujian, and other provinces and cities. The ranking, as well as the importance, of Shanghai's economy in the country as a whole was declining. In 1984, Shanghai's GNP accounted for 5.8 percent of that of the whole country, dropping to 4.2 percent in 1990. Compared with other provinces and regions, in the course of reform, there were remarkable differences between Shanghai and Guangdong in terms of strength and scope of market mechanism, though a major part of Shanghai's economy was still under state planning. Generally speaking, Shanghai's economy, which was mainly under state planning and was declining, would slow down its development of securities market when compared with other provinces and regions. But things developed in the other direction. Shanghai's securities market simply grew although its economy was declining. At present, Shanghai runs China's largest securities market. Its quantity of issues and its transaction volume account for about one-third of the state's amount. Its volume of treasury bonds and enterprise bonds issued and transacted in the municipality also ranks top in the country. The fact that Shanghai gave priority to the development of its securities market even though its economy was declining and was mainly under state planning suggested that its reasons for such development were particular. Of course, the emergence of Shanghai's securities market was closely related to the issuance of treasury bonds and to

the scale of economy in Shanghai. However, the most particular reasons are: Shanghai's enterprises, which originally depended mainly on funding by state plans, encountered serious problems in financing, such that they were forced to solve the problem and to get their production capital by tapping internal sources, issuing enterprise bonds and stocks, and using other direct financing methods. Since the availability of bank loans was limited, government departments in charge of these matters could only acknowledge, permit, and gradually standardize these kinds of financing methods. Therefore, Shanghai's securities market was transformed from a "black market" into an "open market." It developed from chaos into order and grew from nothing. At present, the volume of treasury bonds still accounts for some 50 percent of Shanghai's securities. Since the issuance of treasury bonds is a matter concerning the maintenance of fiscal balance in the revenue and expenditures of the central authority, we are not going to discuss it in this article. We only focus on reasons giving rise to the issuance and transactions of various securities in Shanghai.

#### **A. Issuance of short-term financial bonds.**

Generally, the duration for short-term financial bonds varies between six and nine months. Since those short-term financial bonds issued by enterprises normally take half a month or less to be ready, the target holders are generally enterprises and institutions. Given a certain period, the interest rates on such short-term financial bonds were higher than those on working capital loans. To enterprises, the cost of such issuance was definitely higher than that of applying for bank loans. Under normal circumstances, enterprises were not willing to raise their funds by issuing costly short-term financial bonds. However, the growth in the quantity of short-term financial bonds issued in Shanghai was rapid. The fact that Shanghai issued short-term financial bonds on a large scale was closely related to changes in the supply-demand mechanism of working capital. Before 1984, the working capital needed by enterprises for production was mainly settled by fund allocations through fiscal channels. When the amount was insufficient, the difference would be made up by bank loans and self-raised funds by the enterprise in question. In 1983, the state set a fixed amount of working capital for each enterprise according to its financial need for production in the previous years and made a one-time payment of the capital to industrial and commercial banks for supervision. In the years that followed, however, the prices of goods soared. This was particularly true for raw materials, energy, and other primary products needed by enterprises. As Shanghai was a typical processing industrial municipality, a price rise in basic goods sharply increased the amount of working capital needed by enterprises to maintain their normal production. Today, the actual amount of working capital used by Shanghai's enterprises is one times, or several times, more than the original amount. Furthermore, most large and medium enterprises were located in Shanghai and they had to pay

energy and transport taxes, as well as budget readjustment tax, in addition to the 55 percent income tax. Thus, upon payment of such taxes, they had little funds left to use as additional working capital and needed bank loans to make up for such a wide gap in working capital. Nevertheless, no bank was able to increase its credit offer without limits and all of them were subject to central credit planning. Obviously, the annual growth rate of money supply could not meet the enterprises' demand for capital. When the central bank had abundant funds, enterprises might be able to maintain their production scale. When the central bank tightened the money supply, however, more enterprises would promptly reduce their scale of production, or would promptly suspend their production, because of difficulties in raising working capital. Obviously, a unitary financial system of indirect banking could no longer meet the needs of Shanghai's enterprises for working capital. For enterprises, to tap their internal sources and to issue short-term financial bonds became the only way for them to meet their temporary needs. For competent government departments, since neither the fiscal channels nor the banks were able to meet all of the enterprises' needs for working capital, it was an objective move to grant the enterprises new financing channels, to allow them to directly raise funds for making up the normally insufficient working capital, to maintain normal production and a stable economy. Thus, we can see that changes in the supply-demand situation of working capital gave rise to the formation and development of Shanghai's short-term financial bond market.

#### **B. Issuance of intermediate- and long-term bonds.**

Likewise, Shanghai's intermediate- and long-term bond markets were a necessity for transforming the supply-demand relations of investment capital in the course of reform. Generally, such intermediate- and long-term bonds issued by enterprises were raised for state key construction projects. The term may vary from one to five years and the interest rate was generally one percentage point higher than that on treasury bonds. Shanghai's enterprises began issuing their intermediate- and long-term bonds in 1987. Now, the volume of such enterprise bonds ranks top of Shanghai's securities. The Shanghai Government generally included state key construction projects into its macroeconomic plans and the money supply for such projects is relatively secured. However, the sources of funds were different before and after the reform policy was implemented. Before reform policy was implemented, funds needed for the state key construction projects were allocated through fiscal channels and the banks were responsible for the balance, which was only a small portion of such funds. After reform began, the amount of construction funds financed by banks was gradually increased and the proportion of construction funds allocated through fiscal channels gradually dropped. Even if the government included large-scale construction projects, particularly key projects for local industries, into its plans, only part of the financial needs was settled through the fiscal

channels and most of the financial needs was met through the credit plans of designated specialized banks. After receiving the mandatory plans, such specialized banks worked out a fixed loan amount for the project concerned. It was not the responsibility of these specialized bank to consider whether or not additional loans were needed to finance such projects. To enterprises, it usually took several years to complete the steps of assessing, registering, and formally starting the work of a key project. Usually, the budget amount of such project originally prepared by the enterprise concerned was based on the current price level. As prices often rose in a matter of years, there developed a wide gap between such original budget amounts and the actual ones. Neither enterprises nor local government could use their financial strength to solve such difference. Even specialized banks could not grant additional loans at the exact amount for such projects because the banks were restricted by the credit plans. Consequently, enterprises had no choice but to raise funds by issuing financial bonds at a high interest rate, to ensure that their projects would be completed on schedule. Thus, we can see that the intermediate- and long-term bonds, as well as the short-term financial bonds, in Shanghai were almost caused by the same reason.

#### C. Issuance of enterprise stocks.

Shanghai's stock enterprises began issuing stocks by the end of 1984 but the growth rate of issuance was relatively low. This was because stocks not only played a role in fundraising but also involved substantial issues such as the clarification of property rights, system of ownership, and so forth. Although many enterprises wanted to issue stocks and to become stock enterprises, they needed to go through a strict examination by, and to get approval from, the competent departments. Over a span of six years, there have been only 11 large stock enterprises in Shanghai, of which only eight have their stocks listed. The total value of such listed stock is around 80 million yuan. Upon establishment, the income tax on the stock enterprises was 35 percent. Though this was lower than the 55 percent income tax on state-owned enterprises, dividends were payable to the state-owned stocks according to the rules and regulations. Therefore, the actual tax rate on Shanghai's stock enterprises was similar to that on contracted enterprises. Even then, there were still many enterprises in Shanghai wanting to issue stocks or become stock enterprises. The reason for this was still mainly related to the fundraising issue. Recently, the relatively independent economic interests of enterprises were strengthened. To raise the amount of bonus and welfare, and to achieve improved profits, a large number of old enterprises needed to buy new machinery and equipment, or to invest in construction projects, in addition to tapping internal potential and transforming and improving efficiency. However, the budgetary investment funds held by the governments at various levels were mainly for new key projects or less developed areas such as energy resources, transportation, and so forth. They simply could not satisfy the

needs of these old enterprises, particularly collective enterprises, by investing in their projects. Thus, when an old enterprise needed to engage in a new construction project, or to expand the scale of production, it encountered problems in locating the source of funds. To enterprises, it was a practical and safe way to raise funds by issuing stocks because there was no need to repay the money paid for the stocks and this might reduce the amount of debt. Also, they were state-owned enterprises in which the state was the major shareholder, so that they need not worry about going bankrupt. When an enterprise had difficulties in giving dividends or bonuses, the government would always extend a helping hand to solve the problems. Therefore, most enterprises were willing to raise funds by issuing stocks.

#### D. Formation of the securities exchange.

It was inevitable that the emergence of an issuing (primary) market for securities would bring about the formation of a transaction (secondary) market. This was because if securities were excluded from circulation, such securities would become a sum of dead money to their holders. Thus, whenever such holders held such securities, they could not make any profitable choices for their financial assets according to their wishes. This, inevitably, adversely affected the residents' demand for securities and the issuance of new ones. Furthermore, the black market ran rampant when there was an issuing, but no transaction, market. In the black market, it was often the securities holders who suffered, when they preferred cash to securities. Therefore, the residents had an aversion to, and it became more difficult to issue, the treasury bonds. Such a situation was quickly changed when the transaction market for treasury bonds was open to the public. Thus, we can see that the transaction market is a necessity for the issuing market. Once such a market was developed, it further promoted the growth and perfection of the issuing market. Shanghai's securities exchange has experienced the following general development stages.

After we issued stocks to the public for the first time by the end of 1984, the holders immediately put forward their demand for transfer. At that time, in accordance with the provisions of "Interim Administrative Measures for the Issuance of Stocks," a holder was required to locate his successor before going through the transfer procedures at the trust department of the Industrial and Commercial Bank, which acted as the issuer's agent. By the end of 1986, such stocks transferred by Shanghai represented a total of 11,453 shares, or 10 percent of the total volume of securities issued to the public.

On 26 September 1986, Shanghai set up its first transaction agent—the trust department of Jingan District office, Shanghai, of Industrial and Commercial Bank of China. It acted as an agent for clients to buy and sell stocks of Yanzhong, and Feile stock companies. Shareholders, as well as buyers, could directly make a deal over the counter, making it convenient for selling and buying stocks.

In January 1987, the People's Bank of China promulgated the "Measures for Control of Transactions at Securities Counters," which stipulated that all stocks and bonds must be transferred, bought, and sold at securities counters approved by the municipality's People's Bank of China. The quotations were open to the market. In addition, the securities counters could directly run the business of buying and selling securities. Later, with the approval of the People's Bank of China, eight transaction counters were established, including the Jingan and Hongkou securities departments of Shanghai Trust and Investment Company under the Industrial and Commercial Bank of China, and so on. As the treasury bonds were not yet listed, only four kinds of stocks were available to the public. The volume of bonds was also very low, so that there was no breakthrough in terms of transaction volume.

Beginning 21 April 1988, the state allowed the listing of 1985 and 1986 treasury bonds, so that the transaction volume was boosted. The transaction volume of treasury bonds accounted for over 80 percent of the turnover. Therefore, it began to put an end to the situation whereby "there were only quotations but no market." In April 1988, the four major securities firms (Haitong, Shenyin, Wanguo, and Caizheng securities companies) were established. A competition for securities transactions was thus taking shape. On 19 December 1980, Shanghai established China's first securities exchange, since reforms and opening up began. It marked the beginning of a new stage of formation and standardization of Shanghai's securities market and it also indicated the intrinsic inevitability of the restoration and development of the securities market in Shanghai.

## II. Efficiency and Characteristics of Shanghai's Securities Market

The securities market experiences of various countries showed that a securities market not only played a role in raising funds but also had many economic functions such as optimizing the composition of industries, improving the efficiency and management skills of enterprises, checking inflation, and promoting a stable economy. However, to make full use of the above functions, we must have the following conditions: The circulation of securities must reach a certain volume and the proportion of long- and short-term capital must have attained a considerable level. In selecting indexes, we might have a ratio of securities transaction volume to the GNP value, a ratio of balance of securities issued to the gross loan amount, a ratio of volume of securities issued to the scale of investment, and so forth. Upon making such lateral comparisons of these indexes, we found that Shanghai's securities market only played a minor role in the economic operations and there was still a long way to go before it became an effective securities market. First, let us study the ratio of listed stocks to the GNP. This ratio showed the function of fundraising by stock companies in a country's economy through the issuance of stocks. Generally speaking, the more developed an economy, the higher was the ratio of stock market value

to the GNP. In those new securities markets in developed and developing countries and regions, the average ratio of market value of stocks to the GNP was around 20 percent. ("Development Trends of Securities Industry" by Gong Zhuming, XIN JINGRONG No 8, 1990) It was shown by comparison that the GNP value of Shanghai in 1990 was 73,700 million yuan and that only eight stocks with a total value of 80 million yuan were listed. Thus, the ratio of market value of stocks to the GNP was less than 1 percent. Judging from the country as a whole, the ratio was much lower.

Second, compared to the amount of financial assets in the form of bank loans, the total amount of financial assets being put onto Shanghai's securities market in the form of bonds and stocks was too small. In a developed country, such assets in the form of securities would exceed the financial assets in the form of bank loans. In the United States and Japan, the volume of securities issued was over 100 percent more than the total amount of bank loans granted. To what extent a country turns its financial assets into securities indicates the magnitude of its in-depth financial development, its scale of economic development, as well as the efficiency of its securities market. It was found by comparison that the volume of securities issued in Shanghai was much less than its total asset amount in the form of bank loans. In 1990, the total amount of securities issued in Shanghai was about 4,570 million yuan, or 5.7 percent of the total loan amount in the Shanghai area for that year. Judging from the country as a whole, the amount of bonds and other securities issued by the state over the past decade totalled about 200 billion yuan, or 15 percent of China's total loan amount in a single year (which was 1,650 billion yuan in 1990). This showed that neither the development of Shanghai's securities market nor that of the state's was mature, so that the strength of the securities markets was limited. In addition, the efficiency of Shanghai's securities market was limited by an irrational pricing system, traditional administrative and supervisory means, and other factors. Therefore, the focal point was mainly placed on its function of raising funds and it was difficult to bring into play its functions in optimizing the composition of industries and in improving the enterprise management and economic results.

### A. Functions of strengthening enterprise management and improving enterprise efficiency.

Theoretically, enterprises have to pay more to raise funds by issuing securities than that by applying for loans. Therefore, their desire so derived to strengthen management, and to improve efficiency, became relatively stronger. This was particularly true for stock enterprises. Whenever the business became poor, their share prices and financing capability would drop. In Shanghai, judging from the issuance of stocks and the business of bond-issuing enterprises, this kind of urge was apparently not strong enough. In Shanghai's stock enterprises, the major shareholders were the state and collectives, whereas individuals only held a very small portion of stocks. When Shanghai Feile Stock Company

Limited was founded, its total capital was 23 million yuan, divided into 230,000 shares of 100 yuan each. Out of these shares, 47.8 percent of the capital, that is, 11 million yuan [total as published] or 10,000 shares, was held by the state; 41.3 percent was held by collectives; and only about 10.9 percent was held by individual workers. Similarly, Vacuum Electronic Device Stock Company was founded with a registered capital of 200 million yuan, and its stocks accounted for about 70 percent of the total amount issued in Shanghai. But it only had 25 percent of its registered capital, or shares certificates worth 50 million yuan, listed on the market. The state and collectives were the major shareholders. Therefore, such Shanghai enterprises practicing the shareholding system on a trial basis were still owned by the state. Individual shareholders were still unable to change the nature of the enterprise in question, or to express their opinions or make decisions, on major issues relating to enterprise operations. These kinds of stock companies were similar to the operation mechanism adopted by contracted enterprises. The right to appoint managerial staff, such as directors and managers in these companies, was still held by the competent governmental departments. The mode of operations, as well as scale of production, in such enterprises was still under the guidance of state plans. As the "Company Law" had not yet been promulgated, and there was no practice of regularly announcing to the public the financial and business situation of an enterprise, the pressure on such enterprises was limited when compared to overseas stock enterprises and their urge to improve management and efficiency was obviously insufficient. It was generally provided in the articles of association of such stock enterprises that a shareholders' general meetings must be held to protect the legitimate rights of shareholders. However, it was very difficult to convene shareholders' general meetings because the amount of shares held by individuals was too small. The importance of this general meeting in the enterprise decision-making process was inferior to the existing workers' representative meeting. Obviously, the reason Shanghai enterprises practicing the stockholding system on a trial basis achieved good economic results was because of their special status, rather than any advantages of the shareholding system. The fact that enterprises were chosen by the competent departments for experiments was because they manufactured marketable goods and had a bright future. Such enterprises would still yield better economic results than other enterprises of the same trade even if they did not practice the shareholding system. Furthermore, enterprise bonds helped little to improve the efficiency and management of enterprises. Under the precondition that there was a confused understanding about property rights of enterprises, and that the mechanism for competition and bankruptcy was not yet formed, enterprises mainly cared about whether or not they could accomplish their assigned tasks and tax delivery but paid no particular attention to the repayment of the bonds or the payment of dividends. Even though we strengthened their relatively independent

economic interests, we did not apply it from the perspective of ownership or make it become an issue determining the destiny of an enterprises. When an enterprise was unable to redeem its bonds, the government would eventually act as the debtor on behalf of the enterprise and would help it solve difficulties by reducing or exempting its taxes, increasing its allocation of allowance, and so forth. To date, there is still no case of a large or medium state-run Shanghai enterprise going bankrupt because of its inability to redeem bonds it issued. In short, the issuance of stocks and bonds was the least effective way of strengthening management or improving the efficiency of state-run enterprises because these enterprises undertook the least risks in issuing these securities.

#### **B. Effects of optimizing Shanghai's composition of industries.**

In Shanghai's economy, the processing industry is a rather developed one. Electrical machinery, light industry and textiles, and metallurgy are the pillar industries of Shanghai. The development of basic industries, particularly transport, housing, raw materials, energy resources, and so on, is weak in Shanghai's economy. The opening of a securities market should, of course, help the development of basic industries and put an end to the situation whereby the basic industries and the processing industry are out of balance. Under the current distorted pricing system, however, it is the general processing industry which yields higher profits, has better repayment capability, and is highly competitive in the securities market in terms of fundraising. It is very difficult for industries such as transport, raw materials, and energy resources, which require long construction periods, involve large investment sums, and yield profits only in the long run, to raise funds in the securities market. When we classify Shanghai's enterprises issuing stocks and bonds by trade, we see that five out of eight listed stock enterprises are engaged in machine-building, electrical machinery, and instrument and meter industries. The bonds were mainly issued by large-scale enterprises, such as Shanghai No 3 Plant and Petrochemical Factory, for their key projects. These projects did little to help Shanghai ease its predicament in terms of transport, raw materials, and energy resources. The composition of industries in Shanghai has not changed greatly over the past six years since the creation of the securities market. The funding of basic industrial projects, such as the construction of underground railways, still depends on bank loans and funds allocated through fiscal channels. During the Eighth Five-Year Plan, Shanghai is responsible for the arduous task of developing Pudong. It needs large amounts of funds to develop Pudong whereas the amount of such funds raised on Shanghai's current securities market is very small and utterly inadequate when compared to the requirement for such development. In addition, the securities market is not directly open to foreign investors. Encouragement of foreign investment is still done by the traditional way of forming equity or cooperative joint ventures with foreign investors. We still have not put into practice the method of

encouraging foreign investment through the securities market. This shows that Shanghai's current securities market plays a minor role in optimizing Shanghai's economic composition and upgrading its level.

### C. Cushion effect of stabilizing economic growth.

In Western countries, the composition of an enterprise's assets and liabilities is marked by the following characteristics: First, bank loans account for a small portion in its sources of funding. By the end of the 1970's, the loan ratios of enterprises in Japan, the United States, Britain, and West Germany were respectively 30, 15, 10, and 20 percent; their major source of funding was self-raised funds and capital raised through securities. Second, such enterprises did not invest all of their funds into their production process. Rather, they selectively bought in negotiable securities as the major part of their assets, so that their tendency to evaluate their assets in the form of securities was gradually strengthened. In Western countries, not only enterprises, but also commercial banks, took their assets and liabilities in the form of securities. In 1983, the loan-assets ratio of commercial banks in the United States was 54.39 percent and their business relating to negotiable securities accounted for 20.7 percent. In 1985, the loan-assets ratio of Japan's banks was 55.6 percent and their business relating to negotiable securities accounted for 14.5 percent. As both enterprises and commercial banks took their liabilities in the form of securities, they became more adaptable to changes in the overall situation. Whenever the central banks tightened or loosened the money supply, the commercial banks could maintain a stable amount of loan grants, and reduce the impact on the economy, by selling or buying negotiable securities. To enterprises, they might appropriately sell their negotiable securities when the money supply was tightened and when it became more difficult to obtain bank loans, to ease the shortage of circulation capital and to maintain a relatively stable production scale. When a relaxed attitude was taken toward the money supply, and when enterprises had ample funds, they could maintain the profitability and mobility of assets by buying negotiable securities. Such assets-liabilities composition provided the basic conditions for the "soft landing" monetary policies of the central banks, boosted the capability of enterprises to offset impact on the economic environment, and produced a cushioning effect of stabilizing economic growth.

Upon comparison, we can see that the scale of Shanghai's enterprises to take liabilities and assets in the form of securities is too small. There are about 23,000 enterprises in Shanghai. Between 1984 and today, only some 2,000 enterprises, or less than 10 percent of the total number in Shanghai, issued securities. The major source of their liability funds was from bank loans. The amount of bank loans accounted for 90 percent of such funds needed by Shanghai's commercial enterprises for circulation and over 80 percent of such funds needed by industrial enterprises. Furthermore, the assets of enterprises were still limited to the production domain.

Though there were a few enterprises which held a considerable amount of treasury bonds and short-term financial bonds, such bonds could not be listed or circulated within a short period of time according to their needs. The government had stipulated various terms and conditions restricting the enterprises from buying in securities or listing their securities for circulation. The reason for doing so was that enterprises, which were already facing a shortage of funds, could not invest their limited capital into the securities market. Such a liability-assets composition adversely affected enterprises' capability to deal with changes in the macroeconomic environment. When the banks tightened the money supply, conditions for supplying funds to enterprises for their normal production were worsened. Though a handful of enterprises might have been able to obtain loans because of their favorable positions, or might be granted approval to issue bonds, most of them had neither the capability to issue bonds nor the way to obtain funds by selling their bonds. Therefore, whenever there were changes in the macroeconomic environment, we encountered the dilemma of either having these enterprises cease production or taking a relaxed attitude toward money supply. Obviously, though the composition of assets and liabilities of Shanghai's enterprises included negotiable securities, the ratio was too small for them to provide the basic conditions for the "soft landing" monetary policies of the central banks. Likewise, their role of producing a cushioning effect of stabilizing the economic growth was still insignificant.

### D. Symbolic and demonstrative functions of the securities market.

According to the abovementioned analysis, it shows that Shanghai's securities market did not play an active role in macroeconomic operations and its actual effect on economic activities was very minimal. Nevertheless, this does not mean that the restoration of securities market is meaningless. The symbolic and demonstrative functions of restoration of Shanghai's securities market are immeasurable. Also, such restoration profoundly promoted reforms in the financial system and the stock enterprise system; re-established Shanghai as a national financial center; publicized among residents the thinking of financial investment; and promoted the development of Pudong.

1. The issuance of stocks, and establishment of stock enterprises, provided Shanghai's enterprises with examples, as well as food for thought, regarding the in-depth reform of separating the two types of power. Reforms in state-owned enterprises had undergone several significant development stages after their implementation. That is, from the responsibility system for factory directors, and substitution of profit delivery by taxes, to the present system of contracted responsibilities. Though the system of contracted responsibilities strengthened among enterprises the sense of responsibility for their operations, it could not solve problems relating to the long-term planning and development of these enterprises. Therefore, to further promote the contract system, and to help enterprises make decisions not only



from the perspective of profit-making but also from the perspective of property ownership, have become tricky issues that must be settled in our reforms. The shareholding system experimented with in Shanghai provided us with food for thought. The state-owned enterprises could clarify the obligations of enterprise properties by issuing stocks, to urge the enterprise in question to concern itself about its survival from the perspective of property rights, while maintaining their socialist direction of development.

2. The restoration of securities market was favorable to our reforms in the financial system, and to reestablishing Shanghai as a financial center. Shanghai was once a financial center for China and the Asian region and its securities market was very brisk. However, when we adopted a highly centralized planned economic system after liberation, and when the imperialist countries imposed a blockade on China, Shanghai's function as a financial center was gradually diminished. Though its output value still grew in terms of absolute value, its effects on the national economy, as well as its economic influence on the Asian region, declined. After reform was initiated, there was a transition of the economic system onto a two-tier system that merged planning with the market. As the financial sector became more important in the work of economic construction, a unique channel of financing through banks could no longer meet the demand for production capital needed by different relatively independent economic sectors and multi-level economic entities. The restoration of the securities market not only helped Shanghai ease its shortage of funds, but also brought corresponding changes in Shanghai's financial situation. The mutually complementary, as well as competitive, direct and indirect finances played their roles from different perspectives, so that Shanghai's financial mechanisms were more efficient and conformed more to the needs for economic development. This kind of new financial situation will inevitably promote the restoration of Shanghai's function as a financial center.

3. The development of the securities market helped residents diversify their financial assets, publicized among them the thought of financial investment, and played an active role in stabilizing the consumer goods market. Before the securities market was open to the public, the only forms of financial assets held by residents were cash and bank savings. Compared with negotiable securities, the mobility of cash and savings was higher. Therefore, when the growth rate of cash and bank savings held by residents was too rapid, the stability of the consumer goods market was under strong potential threat. Though we could check the reduction of savings by various means, such as linking savings interest rates to the inflation rate, and so on, the cost is very high and the potential threat, very great. After the formation of the securities market, the residents could buy in negotiable securities, which could not be cashed within a certain period. Provided that the bonds were issued in considerable quantity, we could freeze a portion of the purchasing power for a certain period of time.

In addition, residents would not get their payments back once they bought the stocks. This portion of consumption fund was thus directly turned into productive fund. Although the residents' main motive of buying in bonds and stocks was similar to that of savings, such stocks became the principal of investment after the purchase. The residents' sense of investment would inevitably be boosted in the wake of increasing the amount of stocks and the rate of returns would inevitably be raised in the wake of perfecting and popularizing the stock enterprises.

### III. Several Problems That Are Worth Being Studied

#### A. Balance between the issuing and transaction markets.

The problem concerning an imbalanced development in Shanghai's securities issuing and transaction markets was rather prominent. On the one hand, the ratio of securities transaction volume to the volume of issued securities was too small. Such proportion was 42 percent in 1990. This was completely different from foreign markets, where the volume of securities transactions was several times higher than that of issued securities. On the other hand, Shanghai's existing transaction network (one securities exchange, four securities firms, 23 transaction counters, and 48 transaction agencies) and the categories and quantity of listed securities were obviously insufficient. According to Shanghai's experience in the 1940's, and the experience of overseas securities markets, the categories and quantities of listed securities, particularly stocks, must at least be several dozens and amounted to several hundred million yuan when the securities exchange was open. Otherwise, it would be like having "a temple without a Buddha" and the market would not be active. At present there are 33 categories of securities listed on the Shanghai Securities Exchange. That is, 25 types of treasury, financial, and enterprise bonds and eight types of stocks. Though the turnover of the securities exchange after its formation sharply increased when compared to the same period of the previous year, the buyers and sellers of such securities were mainly securities firms. These securities firms bought and sold such securities among themselves to maintain a growth in turnover. But such growth in turnover did not reflect any corresponding growth in the number of securities investors, or in the amount of investment in securities. It simply raised the cost of securities transactions. The imbalanced development in Shanghai's securities issuing and transaction markets was occasioned by the quantity of listed securities available, which was too small for circulation, and the composition of securities, which were mainly bonds. Of the securities available, the most mobile and the most actively transacted ones were enterprise stocks. This was because residents bought in the securities with the motive of obtaining dividends similar to the way they received interest on their savings and the speculative motive of making profits derived from the time difference. With respect to treasury bonds, the interest rate thereon was fixed and the price of the bonds would gradually rise as the maturity date grew near. With respect to stocks, there was no fixed rate



concerning profits, which fluctuated in the wake of changes in the economic results and actual capital amount of the enterprise in question and changes in the macroeconomic situation. No matter whether share prices went up or down, the residents would sell or buy in stocks at any time in order to safeguard their highest profit yielded and to minimize losses. Therefore, so long as the stocks were listed, it was inevitable that the proportion of transaction volume to the amount of stocks on hand was higher than that in the case of treasury and other bonds.

Another reason that the development in Shanghai's securities issuing and transaction markets was imbalanced was because the government attached more importance to the securities issuing market (mainly the issuance of bonds) rather than the transaction market. Whenever the government issued treasury bonds, it always acted together with corresponding powerful administrative means. China began promoting the sale of treasury bonds in 1981 by means of planned apportioning and compulsory purchase, so that the accumulative amount was over the 100,000 million yuan mark. The state formally opened its transaction market for treasury bonds in April 1988. As the opening of the transaction market was seven years behind that of the issuing market, its transaction volume was of course smaller than the quantity of securities issued. In addition, the categories of treasury bonds were few and the activity of securities transactions was restricted in many areas to institutional investors, such as fund associations and insurance companies. Therefore, securities transactions were limited not only in category but also in scope. In the composition of securities issued, the government attached more importance to treasury bonds than stocks or enterprise bonds. The government did not adopt any encouragement policy, preferential treatment, or administrative means to help enterprises issue their bonds and stocks. Instead, it instructed a certain designated area to issue them at a fixed quantity and put that area under the centralized examination and control of the central departments. The guiding ideology of the central authority was very obvious. On the one hand, the issuance of treasury bonds was favorable, and brought quick results, to easing the shortage of funds at central level. Since each year's fiscal revenue derived from the issuance of treasury bonds was included as part of the budgetary revenue for that year, we had to ensure that we would receive such amount. On the other hand, the issuance of stocks and bonds by enterprises did not directly mitigate problems regarding the fiscal revenue of the central authority. Funds raised by issuing more such stocks and bonds were nonbudgetary funds. Over the years, the principle of the central authority concerning such nonbudgetary funds was to give guidance and to control. This principle determined that it was impossible for various local enterprises to issue stocks and bonds on a large scale.

#### **B. Meaning of securities speculation and possibility of investment inflation.**

In the past, people always thought that securities transactions meant speculation and that speculation equalled gambling, so that it conflicted with socialism. Therefore, they suggested that we should impose restrictions in many aspects. The practical experience in Shanghai's securities market has reminded us that we must clarify the exact meaning of securities speculation and only thus can it promote a healthy development of the securities market. We hold that essentially, there is no difference between securities transactions and speculative acts relating to securities transactions. Without the speculative acts, it is impossible to have a securities market. Speculative acts relating to securities transactions were developed because of fluctuations in the securities market, whereas share prices fluctuated because of various factors. Any projection on the future price level of securities was actually a prediction on the future situation. The speculative acts of buying in or selling such securities was thus done by basing on such predictions, making the trading of securities active. Furthermore, the predictions would cause the prices of securities issued by enterprises with a bleak future to drop and the prices of securities issued by promising enterprises, to rise. Thus, the flow of capital would become rationalized and the composition of industries would be promptly readjusted. Therefore, such speculative acts taken on the securities market in accordance with the projection of share prices were normal acts in a commodity economy. This kind of "speculation" is similar to investment activities. Of course, certain acts will be developed in the securities market which are detrimental to the healthy development of the market, such as "joint efforts by major shareholders to control the market," "running a black market," and "buying and selling short." Such acts do not conform with the normal projection of the price level of securities and violate the principle of fair competition. Therefore, they are not normal acts in a commodity economy. We should describe such acts as improper securities transactions or illegal transactions, instead of briefly and vaguely describing such acts as "speculation." The competent government departments should of course adopt measures to check or combat these kinds of acts.

Generally speaking, funds raised by local enterprises by issuing stocks and bonds are used to finance construction projects. Therefore, some people were worried that the development of securities market would stimulate inflation of investment scale. In fact, this is a groundless fear. The reason that China's investment scale was inflated some years ago was because of the internal mechanism of economic operation. That is, the system of "eating from the same big pot" in investment and the soft budgetary control over enterprises. The amount of investment funds available through the issuance of stocks and enterprise bonds gradually increased, and its proportion gradually grew, following our reforms in the investment system. Although there was no great change in the restrictions imposed by such investment on enterprises,

or in the risks of operation, its burden to repay principal together with interests thereon, and its social responsibility, correspondingly increased when compared to funds allocated through fiscal channels and banking investment. Thus, one should act more cautiously in making decisions on investment in such projects. Generally speaking, if a construction project was financed by funds raised through the issuance of stocks and bonds, both its economic results and its prospects would be better. Otherwise, the share price would drop and it would be difficult to sell the corresponding bonds. An increase in this kind of project did not bring about inflation of investment scale. The so-called investment inflation means that a given investment scale is too large when compared to the needs for economic development and the tolerance level. When the investment scale became excessively large, we should have checked and suspended oversupplied projects, as well as projects which yielded poor economic results and did not have promising prospects, such as the construction of office buildings, restaurants, hotels, and halls. In most cases, these projects were the direct cause of inflation in investment scale. Thus, we can see that when we issue stocks, and enterprise bonds, according to the objective needs for economic development, and systematically increase the number of enterprises adopting the shareholding system on a trial basis, and when we further perfect the operation system for shareholding enterprises, and ordinary enterprises, we shall be able to avoid having any inflation in the investment scale. The scale of investment will be inflated only when we ignore the objective conditions and when we blindly or arbitrarily expand the amount of securities issued.

#### **IV. Suggestions on Developing Shanghai's Securities Market**

China's first securities market was developed in Shanghai. It has now taken shape but its strength is limited and it only plays the role of being the model for the country. This situation reminds us that a securities market of course needs internal development, such as increasing the amount of securities issued, perfecting the transaction market, and so on. But the most important point is that while developing the securities market we should pay attention to adopting a corresponding economic system, as well as carrying out reforms in all directions. This is because the securities market is not a closed system. Instead, it is closely related to reforms in the enterprise mechanism, financial and taxation systems, ideology, and thinking. Only when we carry out corresponding reforms in all directions can our securities market become efficient and develop in a stable and healthy manner.

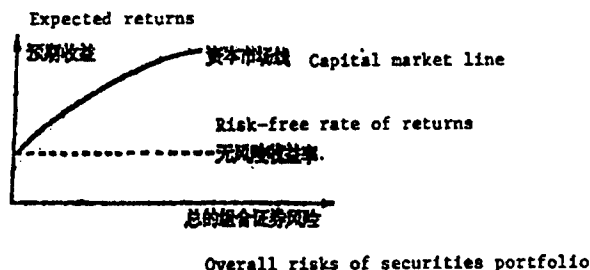
##### **A. Development of securities market and reforms in enterprise mechanism.**

To make the securities market active, we need a considerable amount of listed stocks. This requires us to further increase the number of enterprises adopting the shareholding system on a trial basis and to increase the scale

of reforms in enterprise mechanism. In Shanghai, there are over 23,000 enterprises and several hundred large and medium state-owned enterprises. This provides us with a strong basic condition for increasing the number of enterprises adopting the shareholding system on a trial basis and increasing the amount of stocks issued. Judging from the present situation of enterprises which adopt such a system on a trial basis, we need to further standardize, and perfect, the shareholding system. It is unnecessary for the state to hold an excessively large portion of stocks. The equity ratio for individual and collective shareholders should be increased. For the state, readjustment of enterprises should be done mainly through macroeconomic policies, laws and regulations, and so on rather than through its share of equity in them. For example, we should promulgate as soon as possible the "Company Law" which conforms to the shareholding system; perfect regulations controlling the issuance and purchase of enterprise stocks; and so forth. We should try our best to make stock enterprises announce their financial situation to the public, to put them under supervision by society and to boost their sense of responsibility. When we increase the number of enterprises adopting the shareholding system on a trial basis, we should take a relaxed attitude towards the requirements for allowing nonstock enterprises to enter the securities market. For example, we can consider the requirements for allowing contracted enterprises to issue bonds, requirements for purchasing bonds and stocks, requirements for listing and circulation, and so forth. In overseas markets, securities transactions are mainly done through economic legal persons, such as enterprises and institutions, and individual investors only account for a small portion of stocks. The securities market will thrive only when a large number of enterprises, institutions, and units are in there. We acknowledge that Shanghai's enterprises have difficulties in raising funds. However, we must realize that the shortage of funds among enterprises is a general situation. Some enterprises which developed in the right direction and achieved better economic results, realized growth in their self-raised funds. If the state adopts "indiscriminate" policies and imposes restrictions on the flow of enterprises' funds into the securities market, it would be an action ignoring the imbalanced financial situation of enterprises, would constrain the development of enterprises, and would be detrimental to invigorating enterprises. Provided that enterprises make their assets investments according to their financial situation, they will develop their genuine entrepreneurship and business concepts; and the securities market will become thriving because of large-scale participation by enterprises.

##### **B. To perfect the risk-taking and returns-earning mechanism of the securities market.**

In a healthy securities market, the risk level is in proportion to the amount of returns so derived. Makewezi, 1990 Nobel Prize for Economics winner from the United States, held that: In an effective securities market, there



is a capital market line along which investors make their best choice of combination of risks and returns.

In the chart, the risk-free rate of returns refers to returns yielded by short-term government bonds (or fixed bank deposits). The capital market line is an inclined curve that moves upward from the level yielding the risk-free rate of returns. This curve is plotted by conducting a large-scale regression analysis on the returns and risks of securities portfolio. It indicates that an investor's returns are in proportion to the risks he takes. The existence of capital market line indicates that the securities market is efficient. Only an efficient securities market can positively promote a readjustment of the composition of industries and the efficiency of enterprises. At present, China's securities market has not developed its capital market line. The characteristics are that the scale of risks involved is small and the level of returns is high. The residents were so enthusiastic in securities investment that they paid little attention to the risk factor and investors were generally unable to recognize the risks they were undertaking. In the securities issuing market, there was often confusion about the concept of stocks and that of bonds. In some cases, there were nonstandardized stocks which were issued according to rules providing that the amount would be repaid within a certain number of years together with interests thereon. In some other cases, such rules set a fixed annual rate of return, though the rules did not specify the number of years for such repayment. Objectively speaking, this kind of approach produced a situation where it was less risky to invest in securities, though the rate of returns could be high. In addition, some residents got used to proceeding from the thinking of public ownership. They believed that enterprises, particularly enterprises currently issuing securities on a trial basis, would not go bankrupt and that it was risk-free to invest in such securities. This kind of thinking, that is, unwilling to or refusing to take risks, made it difficult for us to expand the scale of issuing securities, so that a large number of enterprises undertaking risks in their operations simply could not enter the securities market. On the other hand, in order to make residents feel comfortable, the issuing enterprises often raised their rate of returns on securities to such a level that they basically could not free themselves from the state's "parental" care. Obviously, this kind of securities market could not be an efficient one. To help Shanghai's securities market become mature, we must perfect, and maintain a balance in, the risk-returns

mechanism. We must help residents fully realize that they have to take more risks in order to get high-level returns. Furthermore, we should explicitly clarify the differences between stocks and bonds. We must really link the amount of dividends to the operation results of enterprises; set neither maximum nor minimum levels; and clarify by law the rights and obligations of investors. Only when we settle the risk-returns relations, can we help people correctly analyze the quality of securities and the business situation of the issuing enterprises and can we really bring into play the role of securities in promoting enterprise management and optimizing the composition of industries.

### C. The management style of letting things develop on their course and actively giving guidance.

The development of the securities market is governed by its inherent rules. When conditions are not ripe, we shall get the opposite results if we indiscriminately decide that enterprises should issue more securities and bonds and decide, without careful consideration, that the securities market should be expanded. Likewise, the interests of both the state and enterprises will inevitably be impaired if the government takes an inflexible attitude toward the requirements of issuance and refuses to expand the scale of securities market, even though the conditions for developing the market become mature. The most suitable management style for the situation is to let things develop in their own way and actively give guidance. The specific contents are: First, we should work out and perfect laws and regulations governing the securities market, to legally protect the rights and obligations of the fundraising party and the investors. There should be explicit provisions with respect to the returns on, and authority of, stocks held by the state, collectives, and individuals. There should also be explicit provisions with respect to the shares of the state, collectives, and individuals on the disposal of the remaining properties when a stock enterprise goes bankrupt. Moreover, requirements for listing stocks and bonds should be open to the public as is the assets-credit assessment. After a specialized credit assessment, an enterprise satisfying the stipulated requirements should be allowed to issue stocks or bonds. No competent departments should impose any restrictions on, or refuse, the application according to their subjective viewpoints. Neither should these departments allow enterprises which fail to meet such requirements to issue stocks or bonds, in order to meet their experiment or propaganda goals. Second, regarding stock market management, we must observe the influences of the rule of value and the supply-demand relations, on the price level. Any excessive intervention in stock prices will severely distort the securities market. In the first week following the establishment of Shanghai Securities Exchange, it was stipulated that trading would be suspended when the stock prices rose by 5 percent. Such percentage for the second week was 1 percent and later 0.5 percent. Though the move to set the fluctuation range at 0.5 percent might

prevent stock prices from rising and falling sharply, it hampered the vitality of the securities market and made it difficult for it to develop. This is because when the fluctuation range of share prices is too narrow, the stock speculators will only get limited returns, thus losing their confidence in the stock market. An example of this is that shareholders in Shenzhen went to Shanghai in January and February this year to sell all their stocks in exchange for cash. In addition, the reason that Shanghai's stock prices rose recently was because the amount of stock was relatively less than the amount of idle money available in society and because the business situation in stock enterprises was quite good. The competent departments should take prompt actions to allow enterprises to issue more stocks. Under the circumstances where the amount of listed stocks was under strict restrictions the share prices would, of course, soar. Obviously, the share prices would be unable to promptly reflect the business situation of the enterprise in question if we used administrative means and interfered in the share prices by force. Therefore, well-managed enterprise funds would not enter the market on a large scale; and poorly run enterprises would neither feel the pressure nor have the urge for improvement when their share prices plummeted. The rule of value, as well as the spontaneous function of market mechanism, on the securities market are so particular that we must not manage the stock market in the same way as we do the prices of ordinary commodities.

#### D. Internationalization of the securities market.

To attract foreign investment through investment in securities (mainly stocks) helps us expand our scope of encouragement of foreign investment and eases the pressure to repay foreign debts. At present, foreigners invest in China's enterprises in three forms, namely, Chinese-foreign equity joint ventures, Chinese-foreign cooperative joint ventures, and wholly foreign-owned enterprises. The fourth form of foreign investment should be Chinese-foreign joint stock companies. Regarding equity joint ventures, the Chinese party must buy them out, or run into debt, in the event that the foreign party withdraws. However, regarding joint stock companies, the only procedure is the transfer of stocks. According to our assumptions, a foreign party holding more than 25 percent of the stocks may enjoy preferential treatment for foreign-invested enterprises. This is acceptable to foreign investors. The Chinese-foreign joint stock companies may be divided into two categories: One is the existing Chinese-foreign equity joint ventures, which upon assets assessment and clarification of the equity ratio of the Chinese and foreign parties, will have its capital increased and will issue more stocks. The other one is newly established Chinese-foreign joint stock companies, which are jointly formed by Chinese enterprises and foreign enterprises, and will issue stocks to the public in China and abroad. Stocks may be divided into local currency stocks (A stocks) and foreign currency stocks (B stocks). Since renminbi is not yet a convertible

currency, such joint stock companies, or stock companies that need to attract foreign investment, may raise funds by issuing A stocks for circulation in China and B stocks for circulation outside Chinese territory. It is inevitable that the internationalization of the securities market will further boost Shanghai's securities market.

#### Communication Bank Gives Banking New Look

92CE0032A Beijing JINGJI GUANLI [ECONOMIC MANAGEMENT] in Chinese No 7, 5 Jul 91 pp 60-64

[Article by Qin Zhaofeng (4440 0340 0023): "Reestablishing Communication Bank Meets the Objective Requirement of Developing a Socialist Commodity Economy"]

[Text] With its long history, the Communication Bank of China was one of the largest banks in the early days of banking in China. It was founded in 1908 and ceased domestic operations in 1958.

To meet the need of economic development and banking reform, the State Council decided in July 1986 to reestablish the Communication Bank. After a period of preparations, the bank was formally reopened for business on 1 April 1987.

The reestablished Communication Bank is different from the various specialized banks in the following ways. First, reviving its tradition as a shareholding bank, it has adopted a shareholding system and a system whereby the general manager assumes responsibility under the leadership of the board of directors. This helps separate management from ownership and makes it easier to commercialize bank operations and pool idle and sporadic funds from society. Second, it offers a comprehensive range of services. Its scope of operations free from the restraints of specialization, the bank is compatible with the philosophy that an enterprise should be free to pick its bank and vice versa. Third, it enjoys decision-making authority in its operations and is held accountable for its own profits and losses. It balances its own funds. It is not obliged to bankroll an enterprise. Nor does it depend on the People's Bank for funds. Fourth, it sets up offices where the needs of commodity circulation and horizontal economic association so warrant.

As we all know, before the bank was reestablished, the monetary and financial activities of the units had largely come under the purview of specialized banks. In effect the Communication Bank was reestablished without an existing clientele base. However, because it meets the needs of the developing economy, its reopening was greeted with enthusiasm, interest, and support. Thus far the bank has successively opened 69 branches, including some which are operating on a trial basis, forming a fledgling network in eastern China and dotting the landscape of western and central China. In tandem with the forward march of reform, the bank has also been developing apace. Its renminbi business having grown significantly. By late 1990, the assets of its various

domestic branches reached 67 billion yuan and its miscellaneous deposits were worth 7.5 times its capital. Its foreign exchange business too has made rapid progress. Today 27 branches offer foreign exchange services and its total foreign exchange assets stand at \$2.6 billion. In nonbanking areas such as insurance and negotiable securities, the Communication Bank has also made all-round progress. The reestablished Communication Bank is bursting with energy and vitality despite competition barely four years after it reopened its door basically because it meets the objective requirements of the development of a socialist planned commodity economy and the reform of the banking system.

### I. Historical Review

Banks are a product of a developed commodity economy. All over the world today, wherever there are commodity monetary relations, there is banking.

China's socialist banking system has been developing for over 40 years. As the economic system changes and the economic structure is adjusted, the banking system too has been evolving ceaselessly. The early 1950's were a formative period for China's socialist economy. At the time we took the banks with us when we entered the city; the People's Bank of China was founded even before the PRC was born. To heal the wounds of war, we took over the bureaucrat-capitalist banks, transformed the private banks, and set up state banking institutions all over the nation. Also, to meet the need of the economic situation at the time, we retained some of the more flexible and effective content and practices of the banks of old China. Guided by the central people's government "Decision on Unifying Financial and Economic Work," the economic and financial agencies and banks coordinated their work and soon brought inflation under control, solved the government's fiscal problems, and expedited the development of various components of the economy.

In 1956, the "three major transformations" were largely completed. Influenced by the fund supply system and the thinking behind the product economy, we established a highly centralized financial management system characterized by an emphasis on command planning and other administrative tools based on the Soviet banking system of the 1930's. In the product economy, the bank was subordinate to the State Planning Commission, the Ministry of Finance, and other government agencies, and had no independence to speak of. That is why the Communication Bank suspended its domestic operations. At that time a bank's role in pooling and distributing funds merely supplemented the work of the Ministry of Finance in fund distribution. The bank served merely as a head teller or head accountable. Moreover, because of the ban on foreign borrowing, banks could not raise short-term funds abroad. Such a financial system did not meet the objective needs of social and economic development and crippled the bank in fulfilling its functions. More and more it became a barrier to the development of a socialist planned commodity economy.

The Third Plenum of the 11th CPC Central Committee, with its profound historical significance, ushered in a new era in the building of socialism with Chinese characteristics. In 1984, the Third Plenum of the 12th CPC Central Committee adopted the "Decision of the CPC Central Committee on Economic Structural Reform." Thereupon the transition from a product economy to a planned commodity economy through the vigorous but cautious reform of the economic system became a key task for the entire party and nation.

Guided by the theory of the "planned commodity economy" put forward by the CPC Central Committee, China went all out to develop a commodity economy, one that is dominated by public ownership but features multiple economic forms. At the same time, as part of economic reform, administration was simplified and authority was delegated. As a result, the enthusiasm of all sectors of society was unleashed, production grew, the volume of social funds expanded, and both channels and levels increased. Horizontal association, social fundraising, and short-term borrowing have all emerged. Both macroeconomically and microeconomically, this new set of circumstances required that the banking system be reformed to keep up with these changes. Thus it became historically inevitable that we overcome the restrictions of the existing banking system and reestablish the Communication Bank. The new bank must be suited to the needs of a planned commodity economy, exist in harmony with the new economic system, operate smoothly, be full of vitality and highly efficient, and has Chinese characteristics.

### II. Significance of Reestablishing Communication Bank

Society reacted in different ways to the reestablishment of the Communication Bank. Some people said, "There are already so many banks. Why add one more?" Worried that it might affect the development of other specialized banks, they withheld support for reestablishing the bank. Other people said, "The Communication Bank is a new kind of bank. It satisfies the objective needs of China's socialist planned commodity economy, introduces competition into banking, and is in the same direction as banking reform." As such, they argued, we should strongly support it and let it develop even more rapidly. The initial experience of the Communication Bank in the past few years fully demonstrates that the first group represents an antiquated view while the second group embodies a new concept that is in line with the reality of reform.

Briefly the reestablishment of the Communication Bank is significant in these three ways:

A) It has aided the development of China's socialist economy. The reestablished Communication Bank essentially abides by the following three principles: the adaptable principle of proceeding from China's reality; the principle of the commodity economy; and the principle of substitution and comprehensive coordination.

First of all, the Communication Bank is in the midst of eliminating the shortcomings of treating a bank like an ordinary part of the government machinery and establishing the idea that banking is an industry. It has introduced a shareholding system and a general manager responsibility system under the leadership of the board of directors.

1) On the very day it was reestablished, the Communication Bank set the goal of "three first-rates" in its operations, namely first-rate service, first-rate efficiency, and first-rate bank reputation, to be reflected in the actions of each and every employee.

2) In the past banks often concentrated on making loans. On the one hand, they gave out money in the form of loans. On the other hand, they asked for money from the People's Bank. Not so the Communication Bank, it organically integrates deposits with loans, renminbi with foreign exchange, contributing more to the development of a commodity economy by bringing out the strengths of a comprehensive bank.

3) To expand its scope of operations and attract even more customers, it has instilled the idea of "customer first" among its workers, adhered to "doorstep service," operated "full load," and extended business hours, all to make things convenient for its customers.

4) In an on-going effort to increase its funds, develop the economy, and provide even better services, the bank's workers have been firmly imbued with the idea of "deposits first." The attraction of deposits being their top priority, they have introduced a range of new products—agreement deposits, notification deposits, unit or individual large-denomination deposits—to meet the needs of different levels of customers.

5) To expedite the sustained, steady, and coordinated development of the national economy, it abides by the principle of "controlling the total volume, adjusting the structure, improving management, regulating at the right time, and increasing efficiency" in the area of issuing loans. It has adjusted the mix of loans, selectively supports the manufacturing of products that can be exported to earn foreign exchange or are highly marketable and much sought-after. When some hitherto beleaguered enterprises begin to turn the corner, the banks wastes no time in coming to their aid at a critical juncture, supporting them without overdoing it. It is precisely these activities and measures that have vitalized the bank and enabled it to raise and utilize funds highly effectively, thereby making banking an even more effective engine of the development of a socialist commodity economy.

Second, in a break with the old practice of setting up branches to coincide with administrative divisions, the Commercial Bank has been establishing branches in urban economic centers, thereby giving horizontal economic association and cooperation a boost. Horizontal economic association is an objective requirement of socialized mass production and the development of a socialized commodity economy. In setting up its

branches in urban economic centers and extending its services to the surrounding areas, the Commercial Bank is acting in a way that is more in line with the reality in China. The continuous development of horizontal economic association requires that we break down the barriers and separatism characteristic of fund supply and join forces, including cooperating in areas where funds are concerned, so as to put its coalescing force to better use.

Moreover, as a multi-function and inter-regional bank, the Commercial Bank has selectively supported the development of township and town enterprises and promoted simultaneous urban and rural growth.

B) It has introduced the competitive mechanism into the banking industry and helped push banking reform to a new, deeper level.

Under the product economy, China's socialist banks were essentially a special kind of state organ. China's banking system, which was basically a replica of the Soviet banking system of the 1930's, primarily followed the principle of bureaucratic organization in running a bank. In rejecting the principles of the commodity economy and the law of value, it rejected the commercial nature of banks as well, as demonstrated mainly in the following. First, the distribution of bank branches was totally based on the pattern of administrative division. Second, all banks in the nation "ate from the big rice pot" when it comes to credit fund management and the distribution of interests. Third, banks could only operate in a specified field and were not allowed to cross over and operate in other fields. Competition was regarded as "illegitimate." Fourth, organizationally leadership came only from top to bottom, never from bottom to top. Grassroots banks were not allowed to practice independent accounting. Nor were they held accountable for their profits and losses, let alone enjoy decision-making authority in their operations. The upshot is that over time banks stopped looking and behaving like banks. Reforming this kind of system must go hand in hand with the transition from a product economy to a commodity economy.

Historically the bank has always been a special kind of enterprise. Marx called it a "special business." In the transition from the product economy to the commodity economy, the bank creates conditions necessary for money to function like an ordinary equivalent so as to ensure a normal and stable money circulation. At the same time, it must also help funds circulate flexibly, all the while increasing their value through a multitude of credit channels so as to realize the value or efficiency of monetary funds.

In the four years since it reopened for business, the Commercial Bank has been a pioneer on the road of reform in mainly the following ways:

First, it took the lead in pushing for commercial management. It has squarely put its operations and activities in the context of the enterprise and market and used a

range of economic tools at its disposal to intensify horizontal association and energize the social economy. In line with the principle of separating ownership from management, its various domestic branches have been given decision-making authority and practice independent accounting. They are responsible for their own profits and losses. On the one hand, they operate on their own with a fair measure of independence; on the other hand, they take on commensurate economic responsibilities. Not only are they required to consider targets and quotas, but, even more important, they must take pains to expand the scope of their operations vigorously on the basis of self-reliance. Moreover, they must work hard to attract deposits and participate in the short-term fund market and stock market actively. If possible, they should enter such areas as insurance, real estate, and consultation, and put together subsidiaries. In addition, they should systematically develop foreign exchange services, steadily build up a reserve of funds for production, and provide good services.

Second, it introduced the mechanism of competition into the banking arena and form an internal drive that will energize the way the bank is run. The Commercial Bank has adopted the philosophy that an enterprise should be free to choose its bank and vice versa, departed from the closed system of "one client, one bank," which is a system of fund monopoly, and brought an end to the pattern of specialization by specialized banks. With specialized banks crossing into one another's fields of operations, the Commercial Bank has been forced to improve services and develop its own fine banking style. Only thus has it been able for it to carve a niche for itself. Service overlapping and banking competition have been highly instrumental in raising the standard of banking services and improving banking efficiency. Internally, the Commercial Bank has adopted a mid-level cadre appointment system, management by term of office and objective, the departmental objective responsibility system, and so on, and reinforced them with rewards and punishments. This has proved effective in unleashing the initiative of the rank-and-file cadre.

Third, it has established a mechanism of self-balance and self-control when it comes to funds and worked hard to fulfill the bank's role in regulating the economy. Today aggregate social demand still exceeds aggregate social supply, so an important mission of economic work is to check the desire for quick success. The Ministry of Finance and banks should fully cooperate with one another to keep the scale of capital construction and consumption funds under control. Toward that end, the Commercial Bank seeks to balance its own funds. It does not guarantee to provide funds for an enterprise. On the other hand, it does not depend on the People's Bank to provide it with funds. It has worked out a system of self-restraint in its operations. For instance, it limits the total amount of loans to within 85 percent of capital plus all deposits so as to ensure its operational vitality; fixed assets lending at 15 percent of capital plus all deposits;

and lending to any one unit to within 8 percent of all lending to spread the risk of loans. It has also determined that mortgage loans and discount loans should make up over one-third of all working capital loans. This is the reason why in the two years after the People's Bank tightened credit, not a single branch of the bank has experienced cash flow problems.

### III. Whither the Commercial Bank?

The 1990's are a critical period in the development of banking in China. The Seventh Plenum of the 13th CPC Central Committee demands that we put banks to proper use and deepen banking reform in the next decade and during the Eighth Five-Year Plan. During the Eighth Five-Year Plan, the Commercial Bank must put its own strengths to work, expediting the adjustment of the economic structure and improving economic efficiency even more successfully. But even as it supports economic adjustment, it must persevere in reform and develop steadily to become a new and truly comprehensive socialist bank.

A) Gradually shift the focus of its operations to the promotion of economic association and the nurturing of enterprise groups, and support the development of an export-oriented economy.

The State Council stipulates that the "scope of operations" of the Commercial Bank "not be restricted by specialization." However, it is absolutely impossible for the Commercial Bank to do without a basic target clientele on a long-term basis. Correctly choosing and gradually developing its own primary clientele base should be a major goal for the bank during the Eighth Five-Year Plan. The enterprise group is a product of China's reform and open policies. Promoting its growth is a crucial strategic measure for adjusting the economic structure and improving economic efficiency now and for some time to come. As a bank reestablished to meet the needs of reform, the Commercial Bank should gradually shift the focus of its services to the promotion of economic association, the nurturing of enterprise groups, and the support for an export-oriented economy by taking advantage of its extensive ties with all sorts of large, medium, and small enterprises and in accordance with the principle of acting in accordance with one's ability and proceeding in an orderly way. It should selectively explore ways in which the banking industry can aid economic association and support the development of enterprise groups. That way the Commercial Bank can bring out its strengths, develop new lines of business, and improve the services of China's banking industry.

B) Continue its effort to make the bank a nationwide shareholding comprehensive bank.

As required by State Council regulations, the People's Bank decided on a development model for the Commercial Bank, namely that it should adopt a shareholding system on the basis of public ownership, set up branches to coincide with economic regions, adopt a management



system featuring unified leadership and level-by-level management, and not allow its operations to be hampered by specialization. This development model makes it easier to carry out useful experiments that solve the conflicts between economic development and the existing banking system.

During the Eighth Five-Year Plan, the Commercial Bank should continue to adhere to the public ownership shareholding system, adjust the mix of shares, and increase the number of shares held by the state and enterprises, particularly enterprise groups, in accordance with the relevant regulations of the State Council and People's Bank. It should continue to diversify its range of functions, including some that have to be offered by its subsidiaries with legal-person status. When its existing branches are off and running, and with the permission of the People's Bank, it should set up additional branches in large- and medium-sized cities where it does not yet have a presence.

C) Improve the management system and gradually reinforce the Commercial Bank's overall strength.

As it charts its course of commercialization, the Commercial Bank should cherish its own creative experience, formulate and perfect its own various rules and regulations revolving around assets and liabilities management, and further enhance its own self-restraining and self-development capabilities. First, it should continue to adhere to the practice of controlling the amount of funds utilized in accordance with a set of proportions. Second, it should create and implement a system to monitor and evaluate the quality of loans. Third, it should establish a financial analysis system and improve financial management.

In short, we should beef up the bank's capital in accordance with a plan, expand its scope of operations, and, by allowing service overlapping, put an end to the excessive functional concentration by specialized banks. That way the bank will be able to grow faster, offer better services, and contribute as it should to the sustained, steady, and coordinated development of the national economy.

## INDUSTRY

### Textile Ministry Calls Emergency Conference

#### Limit Output, Reduce Stockpiles

92CE0015A Beijing ZHONGGUO FANGZHI BAO  
in Chinese 5 Sep 91 p 1

[Article: "Ministry of Textile Industry Calls Emergency National Conference"]

[Text] To better disseminate and fulfill the spirit of the national cotton work conference and carry out in earnest the series of important instructions issued by leading comrades of the State Council aimed specifically at the

most outstanding problems in the textile industry, the Ministry of Textile Industry convened an emergency conference in Beijing for the heads of textile bureaus and departments across the nation in Beijing from 28 to 30 August.

The conference was presided over by Minister Wu Wenying [0702 2429 5391]. Vice Minister Wang Zengjing [3769 2582 2417] and comrades in charge of the offices of comprehensive planning, production coordination, and economic regulation fully conveyed to the conference the spirit of the national cotton work conference and several key speeches by leading comrades of the State Council. The conference was also attended by vice ministers Ji Guobiao [1323 0948 2871] and Liu Heng [0491 3801] and comrades in charge of the Production Office of the State Council and the Office of Light and Textile Industry of the State Planning Commission.

Despite his busy schedule, Vice Premier Zhu Rongji [2612 3579 1015] addressed the conference. He fully affirmed the important role and position of the textile industry in the national economy, analyzed in depth the more outstanding problems facing the textile industry now, and outlined in detail the solutions and policies that the State Council has taken in response to those problems. (Summary of speech printed separately.)

Minister Wu Wenying submitted a work report to the conference. In line with the spirit of the instructions of leading comrades on the State Council, specific measures have been taken to curb total output, reduce stockpiles, limit the "three major capabilities," and speed up technical transformation. (Work report to be published in next issue of this newspaper.)

Through earnest study and discussion, conference delegates grasped the spirit and clarified the tasks. Some conference delegates who had attended the national cotton work conference explained the specific steps they had already taken or planned to take. Everybody agreed that the conference was convened at the right time and was necessary and that the leading comrades' important instructions indicated that they cared about the textile industry deeply and were highly encouraging. At the same time, the delegates were keenly aware of the arduous nature of the tasks facing them. Many delegates noted that the problems raised by the leading comrades were precisely those that they had been thinking about and discussing for some time. The only difference was that their understanding was not as deep. Moreover, some issues involve a broad area and go beyond the jurisdiction of any one department. With their great foresight, the leading comrades have zeroed in on the crux of the problem and, by bringing the various sectors together, were able to help the textile system solve the problems and create an opportunity for growth of the textile industry. They all agreed that they must firmly grasp the opportunity to put the industry on the path toward healthy development.



The conference concluded with a wrap-up by Minister Wu Wenying. She told the delegates to brief local government leaders promptly after they went home on the tasks, goals, measures, and methods raised at the conference and win the support of governments and comprehensive departments at all levels. At the same time, the delegates must publicize the issues extensively, influence public opinion, mobilize the masses, and take the various targets all the way down to the grassroots so that it becomes the conscious demand of all workers to comply with the instructions of the leading comrades on the State Council. We should arrive at a consensus, synchronize our pace, unify our actions, and carry out enthusiastically and to the full the various tasks decided upon by the conference.

### State Council Enacts Measures

92CE0015B Beijing ZHONGGUO FANGZHI BAO  
in Chinese 5 Sep 91 p 1

[Article: "Vice Premier Zhu Rongji Addresses Textile Conference"]

[Text] On 28 August Vice Premier Zhu Rongji [2612 3579 1015] attended the national conference of heads of textile bureaus and departments and issued important instructions regarding the limiting of production, the reduction of inventories, the restriction of production capacity, and the acceleration of technical transformation, all of which calls for a major effort from the industry today. Below is the gist of his speech:

### It Has Been Difficult for the Textile Industry To Maintain Its Position in the Industrial and Transportation Sector.

The Ministry of Textile Industry has moved quickly to call a conference for the heads of textile bureaus and departments, implement the work plan for the second half of the year presented by Premier Li Peng at a plenary session of the State Council, instill the spirit of the national cotton work conference, and continue to carry out the activities of the "Year of Quality, Variety, and Efficiency." I think this industry has moved more swiftly than anybody else in the industrial and transportation sector. You have a way of doing immediately what you say you would do. I highly approve of that.

The textile industry has been the nation's primary industry since the PRC was founded, accumulating funds for socialist construction and contributing enormously to clothing consumption. Despite the daunting difficulties it has confronted since 1988, which have turned it from a ready source of money into a troubled industry, it remains a top producer and continues to generate the most profits and taxes, earn the most foreign exchange, and employ the most people. The vast army of textile workers has roused itself in the face of difficulties (most of them caused by macroeconomic factors) and is working hard to overcome them in a thousand and one ways. It has been an uphill battle for the textile industry to remain the primary industry.

### Current Difficulties Result From Two Major Imbalances

Today the textile industry is at a turning point. Where is it headed in the future? This is a question we would do well to ponder. How did the industry's current problems come about? Mainly as a result of two crucial imbalances:

The first imbalance is the gap between cotton production and supply. The bumper cotton crop of 1984 misled some people into thinking that "we will not exhaust the supply even if we do not grow cotton for three years." After the bumper crop, leadership on cotton work was relaxed. On the other hand, the difficulties peasants had in selling their cotton were not dealt with properly. The result is a substantial increase in the cotton spinning capacity in cotton-growing areas and unchecked growth in the number of spindles. In the past, the Ministry of Textile Industry controlled all textile machinery. Whoever wanted to increase the number of spindles must first obtain permission from the ministry. In the past few years, the ministry has lost control of the number of spindles, everybody being free to add spindles. In some cotton-growing areas, the number of cotton-spinning spindles has doubled in recent years. Nationwide there are almost 40 million spindles today. Nothing less than 90 million dan of cotton are needed to keep all of them busy. Between 1988 and 1990, it was extremely difficult to get hold of cotton, and profits in the textile industry took a nosedive.

The second imbalance is that between output and market sales, which has been widening since last year as domestic demand softened and exports came under quota restrictions. This imbalance has worsened and has now become more serious than the first imbalance. Certainly, if we manage to come up with new products and open up new markets, it will be a different story.

These two imbalances have created the difficulties now facing the textile industry. If we just occupy ourselves with production and ignore macroeconomic regulation and control and microeconomic transformation, problems will multiply and worsen.

With the above situation in mind, the State Council has taken the following measures:

### Rectify the Cotton Supply Order

It has called a national cotton work conference and rectified the quality, prices, and allocation of cotton. Numerous studies were conducted before the conference and cases in which the state plan on cotton allocation was violated were uncovered. The State Council has issued a circular telling everybody that "business as usual" just will not do. If we all persist in our old ways, the textile industry will be ruined. An inspection team is being assembled for the coming procurement season this year. When there is an impropriety, economic penalties or disciplinary sanctions might be imposed. Concerning factories that procure cotton in cotton-growing areas at

inflated prices, the Ministry of Textile Industry must uncover some of the typical cases and fire the factory managers responsible. As for cotton supply, macroeconomic management by the state is still necessary; under no circumstances can the cotton market be deregulated. Right now the cotton market is extremely chaotic. Order must be restored. It is hoped that with rectification the cotton supply situation will be somewhat better next year.

#### **Strictly Limit Output and Reduce Inventories**

There are glaring imbalances in the market right now. This problem is not limited to one industry, but must be viewed in the context of imbalances in industry nationwide between production, supply, and marketing. In general, production is racing ahead of demand. As a result of the technical transformation during the Sixth and Seventh Five-Year Plans, production has taken off and the level of technology has also gone up. Nowadays we can all make a good number of things, resulting in a steady rise in inventories. As their burden of interest payments gets heavier and heavier, how can factories not suffer a decline in profits? Some places are still trying to decrease output value, assuming that as output rises, so does income. Not so in fact. If things do not sell, there is no income. You can only borrow money from banks and then turn it over to the Ministry of Finance. Inventories have been piling up since the beginning of the year. By the end of June, 4.67 billion yuan more was tied up in unsold finished products in the textile industry than at the beginning of the year. To work our way out of this impasse, we must commit to reducing stocks. By the end of the year we should restore the level to that at the beginning of the year, and remove excess stock within three years.

Should we resort to price slashing to rid warehouses of unsold products? We cannot do that. Price slashing does not necessarily stimulate consumption. On the contrary, the lower the price, the less inclined consumers are to buy. The most effective way to clear inventories is to reduce output, not worry about a decline in output value and the attendant financial losses on the books, and be realistic. The planned cotton-yarn output this year is 23 million pieces. It is hoped that the Ministry of Textile Industry will firmly hold the line. In particular, we must limit production in cotton-growing areas. Conduct monthly checks and announce the results in the press. Cotton stocks must be cut by 1 billion meters, and the amount of funds tied up in finished goods must be trimmed by 4.67 billion yuan. It is hoped that the task is carried out all the way down the provincial and municipal levels. If stocks are not reduced, working capital loans will be reduced or denied, and people will get serious.

#### **Use Funds Freed by Overstocks On Technical Transformation**

Technical transformation has been somewhat stalled in the past three years, causing widening gaps. The time has

come for another extensive round of technical transformation. Through technical transformation, the textile industry should build up a reserve of forces to open up new markets and scale new heights. The trick is pegging lending to reduction: Reduce funds for finished products, and increase technical transformation loans. Reduce the amount of funds by X amount and I will lend you X amount. The total amount of bank loans will not increase. If inventories are cut by 4.67 billion yuan by year end, I will lend you 4.67 billion yuan in technical transformation loans.

Technical transformation involves importation first, and second development. Engage in multiple processing, develop new products that can open new markets, avoid low-level duplicated projects, and do not add one single spindle. In choosing technical transformation projects, we must first conduct market research to find the needs of the domestic and international markets, and study new products and new technology. Projects that we decide to do must have a market and generate profits. We must develop our advantages, and not have everyone engage in the same product. Some say we can no longer simply concentrate on the garment industry, that we must develop decorations and industrial goods. If everybody does likewise, that will not do either. Shen Xiaobo [3088 1420 3134], director of Cotton Mill No 28 in Shanghai, said, "I do not make what others make." He was originally in the business of making tarpaulin and got out after others flocked to that line of business. Under Director Huang Guancong [7806 7070 1783], Shanghai Spinning Machine Plant No 2 has been well managed. What he has done is to concentrate on technical transformation and software. He saw that everybody was flocking to spinning frames, so he turned his attention to and worked hard at equipment that would reel off raw silk from cocoons. He said that other plants could not produce his machines even if they had the blueprints. People embarking on technical transformation must correctly identify the trend of technical development.

We must improve industrial management and do a good job in comprehensive planning. There are three ways to improve industrial management. First, technical transformation loans must be planned and allocated by the department in charge of the industry in question. Second, foreign exchange must be centrally allocated. Third, discount; now interest rates are high, and the central government should give some discount. It is hoped that provinces and municipalities will follow suit. In fact Shanghai and Jiangsu are doing just that and Liaoning is planning to do likewise. I hope all provinces and municipalities will give this matter some consideration. If we do these three things, industrial management will be a success.

A national work conference on technical progress will be convened this November, provincial governors and representatives of major bureaus, departments, and banks will be invited. I hope that everyone will put together project proposals, and review them so that they can be

presented at the conference. After examination and approval by the conference, funds will be made available very shortly. Not only funds tied up in inventories, but also loans for the coming year. However, if you fail to reduce funds so tied up, and allow it to increase, you will not see more technical transformation loans this year. On the contrary, your loans next year will be scaled back.

We must all realize that this is a turning point leading to the resurgence of the textile industry. We must grasp the opportunity, and not for a moment can we slacken our efforts. If we work hard for three years, the textile industry will be able to turn around, and present a brand-new look on the domestic and international markets.

### Textile Industry Cuts Inventories, Output

HK2810085591 Beijing RENMIN RIBAO in Chinese  
19 Oct 91 p 2

[By Mo Xinyuan (5459 2450 0337) and Qian Youqing (6929 2589 7230): "Important Turning Point—Commenting on Current Move To Curb Stockpiling and Stop Production of Unusable Goods in Textile Industry"]

[Text] In view of the grim situation facing China's textile industry, a State Council leading comrade recently pointed out: The textile industry's top priority at present is to cut inventories and strictly limit aggregate production. A "tough battle" to cut inventories and limit production has thus opened the textile industry's bid to achieve a strategic readjustment.

As China's important mainstay industry since the drive of reform and opening up to the outside world was launched, the textile industry has helped basically solve the problem of food and clothing for China's over 1 billion people and become a "big earner" of foreign exchange. Nevertheless, the industry is now facing two big contradictions: incongruity in production capacity and cotton supply and imbalance in aggregate production and market absorption capacity. Textiles kept in stock have exceeded sixth months' sales volume, thus seriously affecting the economic results of enterprises and the industry as a whole. According to the statistics provided by 1,301 state-owned textile enterprises in 39 large and medium cities, from January to August this year, the enterprises' profits dropped 42.1 percent from the same period last year and their loss volume increased 42.8 percent over the corresponding period last year, with the percentage of loss-making enterprises being 38.2 percent. The "money tree" in the past has now become a "bitter cauliflower."

The textile industry's current stockpiling is vastly different from the stockpiling of textiles in 1982, in terms of background. First, the Chinese people, now marching from the state of just "having enough to eat and wear" to a "comparatively well-off life," have changed their demands for textiles from stressing mainly quantity to

quality. Second, in the last few years, the textile production capacity has expanded excessively drastically, greatly exceeding market capacity. Third, free from the problem of strains in raw material supply, the 1982 stockpiling was mainly caused by structural imbalance and single variety; but the current stockpiling is caused by the impediments in both raw materials supply and the market and characterized by imbalanced aggregate production. It can thus be seen that to further develop, the textile industry should transform itself from a speed type, stressing exclusive expansion by extension, to a quality and efficiency type, science-technology leading type, and resources conservation type and should not continue to repeat development at a low level. Therefore, cutting inventories and limiting production are key steps.

There are many difficulties in cutting inventories and limiting production. Governments at all levels and various departments concerned should conscientiously implement the spirit of the State Council's instruction and carry out the task to the letter by proceeding from the overall interests. Superficially, cutting inventories seems to be detrimental to enterprises' production and operations but in fact, it helps create conditions to invigorate enterprises. Are there any benefits to speak of for us to continue to turn out products which have to be put in stock the moment they are turned out? As long as textile enterprises cast their eyes on the market, they will find it not difficult to understand the argument that cutting inventories and limiting production are an extremely urgent task and can actively plunge themselves into the drive.

A turn in the course of events also serves as an opportunity. As its technology and equipment are now universally backward, the textile industry is unable to meet domestic market demands and its gap in production technical levels with the world's textile industry will gradually widen. Currently, the State Council adopted methods such as linking inventory cutting to loans and supported enterprises' technological transformation in terms of policy. This is an extremely good opportunity for textile enterprises to carry out technological transformation on a large scale. If we adopt a reform and enterprising approach toward the advocacy of cutting inventories and limiting production, we will find that after production is limited, we will have more things, rather than nothing, to do.

### Metallurgical Company Expands Foreign Business

HK0410091091 Beijing CHINA DAILY in English  
4 Oct 91 p 2

[By staff reporter Chang Weimin: "CMCC Seeking Foreign Contracts"]

[Text] The China Metallurgical Construction Corporation (CMCC), one of the world's leading contractors, has positioned itself to further expand business in the international arena.

Wang Chengyi, president of the CMCC, yesterday told CHINA DAILY that his firm expects to have a share in the construction of the new airport in Hong Kong.

Wang, former vice-president of the Baoshan General Iron and Steel Works in Shanghai, one of the country's largest, said his firm has great interest in the airfield in which the Hong Kong authorities will invest multi-billion U.S. dollars.

"We have the ability to take on a slice of the construction of the airport," he said.

It is learned that some 10 companies in China would be capable of taking on sub-projects in the airport construction.

CMCC, which was established in 1982 and listed 99th out of the world's top 250 contractors in 1988 by the American magazine Engineering News Record, is now active in business abroad.

Wang said that large key projects are his firm's objective abroad. The expansion plans also include supplying overseas companies with high-tech professionals and launching cooperative projects and industrial productive joint ventures abroad. The firm so far has established offices and launched cooperative projects or joint ventures in 17 countries and regions.

An affiliate to the Ministry of Metallurgical Industry and under the guidance of the Ministry of Foreign Economic Relations and Trade, the firm has seen its overseas business grow steadily over the past nine years.

So far, the firm has contracted at least 394 projects abroad, involving more than \$920 million and earning more than \$43 million in foreign exchange.

Wang predicted the firm's contract value this year would surpass last year's \$128 million, continuing the steady upward curve in business since the firm was set up. Since 1986, the firm has had an annual contract value of more than \$100 million.

Wang said that last year his firm won the contract for the construction of a copper mine at Saindak in Pakistan, with total investment estimated at \$285 million.

As a key project with a designed output capacity of 15,000 to 16,000 tons of copper a year, the mine is to be completed in 1994. Companies from Finland, Romania and Yugoslavia competed for the contract but it was finally won by the CMCC.

Chinese-made machinery and electronic equipment totalling some 13,000 tons, a large quantity of chemicals and metallurgical industry-use materials will be provided for the project. [sentence as published]

Wang said construction of the mine is now running smoothly, in accordance with the contract.

He spoke of his firm's ability to contract various projects particularly those in the metallurgical industry field,

saying that his firm's business would be more extensive in the future. Wang claimed the technology his firm possessed was energy saving and suitable for developing countries.

He said his firm had to suspend business in those countries and regions unstable either socially or economically. However, he added that they still kept an eye on developments in those areas and would be prepared to enter their markets when situations returned to normal.

#### **Aerospace Ministry Increases State Funding**

HK0710010791 Beijing CHINA DAILY in English  
7 Oct 91 p 1

[By staff reporter Li Hong]

[Excerpt] China's space industry, which is celebrating the 35th anniversary of its launch, aims to spearhead the country's technological breakthroughs and become more internationally competitive.

The Ministry of Aerospace has been promised increased State investment in the next five years to speed its development, said a senior ministry official.

In 1990, the industry accomplished five space ventures, including the launch of AsiaSat 1 in April and the rehearsal blast-off of the powerful Long March 2-E launch vehicle in July.

Deputy Aerospace Minister Wang Liheng told a press conference that the central government was banking on space technology to lead and help other sectors of the national economy.

Three space-related high-tech organizations were launched on Saturday: the China Resource Satellite Application Centre; the Space System Engineering Development Centre; and the China Association of Computer Automatic Measurement and Control Technology. [passage omitted]

#### **Building Materials Market Expands**

OW0710115391 Beijing XINHUA in English  
0904 GMT 7 Oct 91

[Text] Beijing, October 7 (XINHUA)—The production of building materials in China increased during 1991, while the market has risen steadily following a weak market which had affected the industry for many years.

According to the overseas edition of today's PEOPLE'S DAILY, building materials production in China has increased by 13 percent so far during 1991. In addition, cement production has increased by 20 percent over last year's same period and has reached its highest level since the beginning of the Seventh Five-Year Plan period (1986-90).

The State Bureau of Building Materials Industry estimates that this year's output of cement will reach eight to 10 million tons.

Exports of plate glass have surpassed 50 million square meters, a three-fold increase over last year's same period.

As part of an effort to maintain the momentum and improve the building materials market more than 400 related enterprises recently held China's first building materials fair where they displayed over 1,000 types of materials, including many new materials and products.

### **Fiber Plant Reports Polyester Production**

*OW0710132991 Beijing XINHUA in English  
1155 GMT 7 Oct 91*

[Text] Beijing, October 7 (XINHUA)—The No. 1 Polyester Fiber Plant, under the the Yizheng Chemical Fiber United Company, has produced more than one million tons of polyester cuttings and staples since it went into production in 1985.

The plant has turned out more than 8.7 billion yuan of products.

Experts say that with the above amount of chemical fiber, workers can weave 10 billion meters of polyester cloth, enough to provide each of the country's 1.1 billion persons with four suits of clothes.

Yizheng Chemical Fiber United Company, located in southeastern China's Jiangsu Province, is China's largest producer of chemical fiber.

## **FOREIGN TRADE, INVESTMENT**

### **Trade Expansion With Indonesia Expected**

*91CE0695A Beijing GUOJI MAOYI WENTI  
[INTERNATIONAL TRADE JOURNAL] in Chinese  
No 7, 30 Jul 91 pp 32-35*

[Article by Huang Weiguang (7806 5898 0342)]

[Excerpts] The reestablishment of diplomatic relations between China and Indonesia on 10 August 1990 is beneficial to developing the already existing economic trade relationship between the two countries. It also exerts a very active effect on peace and development in the Asiatic Pacific region. [passage omitted]

After China and Indonesia reestablished diplomatic relations, a great future lies ahead for developing economic and trade relations between the two countries. China and Indonesia are neighbors as well as members of the Third World. Even though relations between the two countries have been suspended for a time, the trade relationship between the two has had a long history. As early as the late 1950's, the amount of bilateral trade between the two countries had already exceeded \$100 million. Beginning in 1985, both countries started trading with each other directly. In 1989, the total amount of trade between both countries had already exceeded \$800 million, of which \$582 million was in Chinese imports and \$223 million was in exports. In 1990, the amount of bilateral trade reached \$1.18 billion, of which \$800

million was for Chinese imports and \$380 million was for exports. The benefits that accrue toward expanding bilateral trade between China and Indonesia are many.

First, both countries are in the same stages of social and economic development. Both countries cover broad expanses of land within their borders that are richly endowed with natural products. They also have similar levels of productivity and purchasing power. The consumption level of their people and their consumer habits are not very different. Therefore, it is relatively easy for one market to accept the products of the other, and it is even easier to exercise fairness, reason and equity in their trading practices.

Second, the economic and trade structures of both countries are complementary to a rather great degree. Indonesian trade circles have made a detailed study of 14 common Chinese imports and have concluded that most of these products can be supplied by Indonesia. They include such goods as lumber, plywood, rubber, rattan products, steel, chemical fertilizer, paper, cement, spices, copra, etc., that are produced in Indonesia in quantity. On the other hand, China has the capacity to supply Indonesia with various kinds of machinery, equipment and instruments, electronic products, textiles, light industry products, animal feed, oils, legumes, jute, dogbane, fuels, cotton and cotton products, chemical and industrial raw materials etc. The complementary nature of trade between China and Indonesia is stronger than that between China and other countries in Southeast Asia. However, it cannot be denied that competition also exists between the two sides in the area of trade. Yet, on an overall scale, the complementary nature of the trade relationship is greater than its competitive aspect.

Third, the future of cooperation between the two countries in the area of science and technology is very good. After more than 40 years of national construction, China has established a fairly complete system of production in agriculture and industry. The science and technology applied in agriculture and industry in China are definitely applicable to Third World countries. Structurally, China's technology is characteristically pluralistic and multilayered. That is to say, her technology contains many sophisticated and new techniques as well as generally applicable ones. In the area of product structure, China has capital- and technique-intensive products as well as natural resources and labor-intensive products. Indonesia is in the midst of making great strides toward an industrial society, and its technology and product structure are showing multilayer and pluralistic characteristics. This allows for close cooperation in science and technology, joint acceleration in the sophisticated progression of industrial and technology structures, and from this, to save on capital costs for retooling. China has the capacity to supply Indonesia with urgently needed technical skills and equipment in areas of coal and gold mining, hydroelectrical power, agricultural machinery, construction engineering, textile machinery, education and health, media communication etc. On the

other hand, the cultivation of some tropical and semi-tropical crops and some food processing techniques as practiced in Indonesia are skills needed in China's coastal provinces.

Fourth, because of strategic considerations, both sides hope the other will be its long term cooperation partner. Faced with a wave of protectionism in international trade, and Japan's economic penetration into the nations of Southeast Asia, the Asiatic countries are all paying more attention to finding long-term cooperation partners within the region. From a strategic angle, China and Indonesia urgently need strengthened cooperation, to reduce their dependency on the Western nations and Japan, and to improve their diplomatic activity in the Asiatic region. Their cooperation is one built on the basis of equality and mutual benefit, without the problems of who is dependent on whom, and who is controlling whom.

Fifth, both countries can become the overseas investment market for the other. China has already begun to make overseas investments, and she could participate in capital investment and exploration of Indonesia's resources—coal and gold mining, agriculture, hydroelectric power, and forestry industries. And the environment for capital investment in China also poses a strong attraction for some wealthy groups in Indonesia. Following a continued strengthening of the two nations' economic power, the opportunity for mutual investment in each other will continue to increase.

Sixth, many of the several million Indonesian citizens of Chinese descent, who are familiar with Chinese culture and are engaged in economic trade activities, can become the bridge for this economic relationship between the two countries.

It must be recognized that even though economic cooperation between the two countries has great potential and an attractive future, there are still some obvious barriers. The first is one of politics and awareness. Because of a long cutoff period in the past, Indonesia still harbors some suspicion of China, which will take time to eliminate. The second problem deals with the form and channels of trade. Also because of a cutoff in direct trade for a period, both sides have become unfamiliar with each other's markets, and need to better know each other's consumer likes and consumer habits, and to further explore their respective forms and channels of trade before they can be established. All of this requires time. Furthermore, the magnitude of problems dealing with trade balances, and the effects of foreign capital investment etc., also vary in degree. However, it can be predicted, that following a deeper understanding between the two countries, the cooperative relationship in trade will continue to develop in a favorable direction.

### **Establishing Floating Exchange Rate for Renminbi**

91CE0728A Beijing GUOJI MAOYI WENTI  
[INTERNATIONAL TRADE JOURNAL] in Chinese  
No7,30 Jul 91 pp 2-6,41

[Article by Wang Ziguang (3769 1311 0341) and Zhou Guofang (0719 0948 0119): "Several Problems About the Direction of Renminbi Exchange Rate System Reform"]

[Text] The several fairly substantial readjustments of renminbi exchange rates during the past several years have had a pronounced affect on the country's economic development and opening to the outside world. Everyone is extremely concerned about the future course of reform of the renminbi exchange system. The foreign trade system founded on prevailing exchange rates that went into effect in 1991 whereby everyone is responsible for his own profits and losses poses very real problems for the establishment of a floating renminbi exchange rate mechanism. The renminbi exchange rate cannot be readjusted and fixed as it was in the past. The prevailing exchange rate system has to be reformed, and an exchange rate regulating mechanism established that floats as domestic and foreign economic situations change. Otherwise, foreign trade enterprises will find it very difficult to be responsible for their own profits and losses in a situation of domestic price fluctuations and changes in the international market. Reform of the foreign trade system will end up in dire straits. We believe that the establishment of a floating renminbi exchange rate mechanism today is not only necessary but feasible, and we recommend that it be established step by step as reform and opening to the outside world progresses.

#### **1. Establishment of a Floating Exchange System is an Objective Necessity in Expanding the Opening to the Outside World, Deepening Reform, and Advancing Modernization**

*(1) Establishment of a Floating Exchange System Is a Key Step in the Implementation of China's Foreign Economic Development Strategy*

Theory and practice in world economic development show that an import substitution strategy plays an important role for developing countries during their initial economic stage in laying the groundwork for domestic industry and for enhancing the ability of the economy to stand on its own feet. However, once the substitution of basic consumer goods has been achieved, the strategy should be changed at once. If it is not, the economy will land in a predicament of slow growth, worsening of its international balance of payments, and decline in the ability of its economy to stand on its own feet. India, Mexico, and Turkey provide examples. Brazil and Chile used an imports substitution strategy for a time. This created a high degree of dependence on intermediary products and foreign capital, which ultimately led to a serious worsening of their international

balance of payments and a debt crisis. This offers a more profound lesson. Conversely, if a prompt change is made to an export-led strategy or a combination export-led and import substitution strategy just as soon as import substitution of basic consumer goods has been achieved, many opportunities and favorable conditions for economic development will be gained. Taiwan Province, Singapore, and South Korea provide classic examples. For a long time after World War II, Japan pursued a combination import-substitution export-led strategy. After the 1970's, however, it gradually changed to an export-led strategy.

China has a huge population; the domestic market is enormous; and resources are available, but the per capita amount of resources is not large. Nevertheless, they are substantial in absolute terms, and after more than 40 years of economic construction, a substantial industrial foundation is in being, and the level of science and technology has risen very greatly. Although some favorable conditions exist in the international environment that China faces, there are also quite a few disadvantageous factors as well. Its position as a large country and certain special traits determine that China will rely mostly on its own resources and markets for economic development. International conditions can serve as a needed and an important supplement. These factors dictate China's best choice is to follow a combination import substitution and export-led strategy that makes fullest use of domestic resources, skills, and markets while also making fullest use of the role of the conversion mechanism of international markets to convert advanced productivity available internationally into a technical development capability for China for ultimate attainment of the goal of using "two markets, and two kinds of resources" to the maximum degree to hasten the pace of modernization.

Establishment of a floating exchange system holds decisive influence for China's implementation of a combination import substitution and export-led strategy. This is because the most important policy tool in this strategy is exchange rates. Building an exchange system that possesses a certain amount of elasticity for prompt readjustment of overvalued exchange rates will maintain exchange rates at a reasonable level throughout. It will employ the encouragement of exports accompanied by needed customs duties and other policy measures to maintain a certain amount of import substitution that is consistent with requirements of this strategy. An overview of the successful experiences of Taiwan Province, South Korea, Singapore, and Japan in development shows that everyone of them went through reform and stabilization of the exchange system in the gradually building of an automatic regulation exchange rate mechanism. They used the important economic lever and policy tool that exchange rates provide to advance a change in development strategy, and they achieved rapid economic development.

*(2) Establishment of a Floating Exchange System is a Major Link in the Deepening of Economic System Reform*

Foreign exchange system reform is closely related to price reform, enterprise reform, macroeconomic regulation and control mechanism reform, and market development. The goal of price reform is, first, to straighten out the domestic price system; and, second, to eliminate the disparity between domestic market and international market prices, which is to say making the exchange rate rational. Straightening out domestic prices and making the exchange rate rational are interrelated and mutually complementary. Straightening out domestic prices forms a basis for the ultimate rationalization of exchange rates, and the gradual rationalization of exchange rates is an important link in straightening out domestic prices. Thus, price reform must be done together with exchange system reform. Only by reforming the prevailing exchange system to build a floating exchange rate mechanism that truly permits rates of exchange to reflect the purchasing power of the renminbi can balanced prices occur that provide an accurate signal for total regulation of the national economy and enterprises' calculation of profits and losses. In addition, exchange system reform will enable exchange rates to substitute for fiscal subsidies and other policy measures to become the most important policy tool for regulating exports and imports. This will help create conditions for equal competition among enterprises that produce for export, and for foreign trade enterprises. The rationalization of exchange rates remains a prerequisite and a technique for building a new kind of macroregulation and control mechanism for the national economy. Exchange system reform closely correlates with the development of commodity markets, capital markets, and foreign exchange markets.

**2. China Today Possesses in Preliminary Form the Essential Conditions for Reforming the Exchange System**

The fixed exchange system has now lost the basis and the conditions it once had. The fixed exchange system was formerly set up in keeping with the highly centralized planned economic system and the import substitution economic development strategy. Under the old economic system, the reason for the one time readjustment and one time fixing of exchange rates for a fairly long period of time was that command style prices were in effect for all commodities at that time so prices were fairly stable. The import substitution strategy was also in keeping with the extremely depressed level of the national economy, and the serious shortage of consumer goods right after founding of the people's republic. This was because under a fixed exchange system, rates of exchange are overvalued to help develop basic consumer goods production and to lay a foundation for domestic industry. Since reform and opening to the outside world, China's planned commodity economy has developed rapidly. Price laws and market regulation have had an important influence on the flow of goods and services in the economy. During the past several years, the number



of industrial command style plan products has declined from the more than 120 of the early period of reform to slightly more than 60, and their output value as a percentage of all industrial output value has fallen to 20 percent. Processed steel, coal, cement, and lumber have also declined greatly as a percentage of materials the state has earmarked for unified distribution. Except for a small number of products affecting the national economy and the people's livelihood, such as grain and cotton, which the state controls, prices of other agricultural by-products have been largely removed. Most of the country's export commodities are marked-regulated. An overwhelming majority are industrial manufactures and agricultural by-products, which account for 80 percent of the total. Export commodities as a percentage of GNP for the year rose from 5.5 percent in 1979 to 11 percent in 1989. In the export commodity mix, the percentage of industrial manufactures increased from 20.6 percent in 1953 to 71 percent in 1989. At the same time, the coastal region's development of an externally oriented economy grew by leaps and bounds. At the present time, the country's economic operating mechanism and the level of economy development, the scale of imports and the commodity mix, and the scale and degree to which it participates in the international division of labor have undergone tremendous change. However, the fixed exchange system not only hurts the "rewarding of exports and the limitation of imports," but it seriously distorts the relative relationship between domestic prices and international prices, hampers the rational flow and allocation inside China and internationally of key economic elements and production materials, and limits full effective use of the "two markets and two kinds of resources."

The country's import-export commodity mix and its macroeconomic policies today provide basic conditions for bringing into play the regulatory role of a floating exchange system. The regulatory effectiveness of a floating exchange system depends on the degree of elasticity of demand for import and export commodities, and import-export commodity demand elasticity depends, in turn, on the import-export commodity mix. When a country's import-export commodity mix tends toward manufactures and labor-intensive products, demand elasticity is large. Conversely, when a country's import-export commodity mix tends toward primary products and capital, technology, and resource-intensive products, demand elasticity is small. By comparison with South Korea, Singapore, Taiwan Province, Spain, Israel, the Philippines, Portugal, Japan, and Yugoslavia, countries and territories that largely began to practice a development strategy conversion and exchange system reform before 1965, the percentage of China's exports of manufactures is lower today than for Japan at that time (the beginning of the conversion in 1960) and Israel (the starting point for both being fairly high), and higher than for Singapore, Taiwan, and Spain. Moreover, China's export manufactures are largely labor-intensive products. From the standpoint of export commodity demand elasticity alone, the present lowering of China's exchange

rate will doubtlessly improve the country's trade conditions, giving powerful impetus to an expansion of exports. However, since China's is a resource-limited economy, it is characterized by a total demand that is greater than total supply. Consequently, yet another factor limiting China's expansion of exports is the size of export commodity supply elasticity. Therefore, China's adoption of a rather strict macroeconomic policy aimed at curtailing total domestic demand is the key to improving effectiveness from lowering the exchange rate and expanding exports. China is continuing to carry out a policy of "improving the economic environment and rectifying the economic order," which sets the stage and provides support for the building of an exchange rate regulation mechanism.

Comparison of the import commodity mix shows the percentage of China's manufacture goods imports to be markedly lower than the aforementioned countries and territories. If discussion is limited to just this point, a lowering of the exchange rate produces a fairly great effect in curbing imports. However, for an economy that is in the industrialization process, it is also necessary to consider that there is little relationship between the imported inputs and the reliance on intermediary products of the modern industrial sector and the make up of the country's imports. Since reform and opening to the outside world, as the scale of the country's technology imports has expanded, and with import substitution, the degree to which some modern industrial sectors such as the household electrical appliance and motor vehicle industries rely on imported inputs including assembly lines, raw and processed materials, spare parts, and related intermediary products has increased substantially. However, by comparison with most newly industrializing countries (or territories), during the import substitution stage and the export-led early period, the demand for and the degree of reliance on imported inputs was markedly greater than for China. Furthermore, their imports as a percentage of GNP were also higher than China's, amounting to 15.9 percent for South Korea, 40.5 percent for Israel, 17.5 percent for Taiwan Province, and 62.2 percent for Singapore in 1965, all of which were higher than the 9.4 percent for China in 1989. Clearly, the present lowering of China's exchange rate has helped promote greater use of China-made products in the modern industrial sector. It has been markedly effective in curbing imports.

### 3. Basic Thinking on the Building and Perfecting of China's Floating Rate System

China's reform of the exchange system, and its building of a floating renminbi exchange rate mechanism should be done in four steps and carried out gradually in an orderly fashion on the basis of the country's reform and opening to the outside world, and the needs and possibilities for development, taking into account the lessons of experience in exchange system reform of various countries in the world for expression of the principle of a combination of a planned economy and market regulation.



The first step: Exchange rate preliminarily reaches a preset point (1991)

Neither the December 1989 nor the November 1990 lowering of the renminbi exchange rate eliminated its over-valuation. It has been necessary to continue to use until this day the macroeconomic effect of the "double tight" policy [tight fiscal and monetary policies] to settle the conversion rate at a preliminarily set point, i.e., one that generally reflects the true purchasing power of the renminbi.

During this period, pegging the renminbi to the United States dollar should be abandoned in favor of pegging it to special drawing rights. The fixed value of special drawing rights is determined by the United States dollar, the German mark, the British pound and the French franc whose weighted values are 40, 21, 17, 11, and 11 percent respectively. Since the exchange rate for the United States dollar shows a counter movement relationship to the four other currencies, if the value of the United States dollar rises, other currencies depreciate in value, the mutual changes possibly cancelling each other out to a very great degree, their values remaining relatively stable. By pegging the renminbi to them, its value can be kept relatively stable. Pegging relative to a basket of currencies has the advantage of simplifying calculations and ease of manipulation. The People's Bank can make small readjustments to exchange rates or adjust them slightly each quarter as changes in special drawing rights require, keeping in mind the disparity between inflation in China and in the five countries, as well as the needs of China's economic policies. Such a method is known internationally as "pegging to a floating exchange system." In actual operation, readjustment to market exchange rate changes reflects overall changes in various factors. It serves as the main signal for exchange rate readjustments.

Perfection of the foreign exchange regulation market is crucial to the first step of reform. The foreign exchange regulation market plays a definite role today in the regulation of imports and exports. Nevertheless, the trading range is narrow, and the percentage of deals concluded is not large. Readjustment of foreign exchange markets in the various provinces and municipalities throughout the country is disjointed with too much local government administrative interference. Readjustment of rates is mostly done by local regulating centers; there is no fluctuation with market changes and no reflection of changes in supply and demand. The existing foreign exchange retention system permits those subject to market regulation to substitute quota for spot exchange, thereby increasing the number of transactions and trading costs. These shortcomings mean that exchange rate regulation cannot function as an accurate signal that reflects the true value of the renminbi and the foreign exchange supply and demand situation. Thus, it cannot serve as an accurate reference for changes in the renminbi exchange rate. Principal measures for perfecting the foreign exchange regulation market are as follows:

1. Steady expansion of the scale of market trading with an increase in market trading efficiency. First of all, restrictions on sellers entering the market could be relaxed. So long as the source of the foreign exchange is proper, enterprises, groups, and individuals of all kinds should be permitted to enter the market. Second is gradual improvement of controls over buyers entering the market, removing unwarranted restrictions. So long as their reasons are valid and consistent with state industrial policy and other policy requirements, all enterprises, particularly production enterprises, foreign trade enterprises, and three kinds of partially or wholly foreign-owned enterprises should be permitted to buy in the market. Citizens' purchases of foreign exchange may be tightened somewhat, being limited only to certain special purposes such as small sums of foreign exchange needed for examinations and study abroad. Third is the building of an agent system as a convenience for both buyers and sellers. As volume of trading expands, and methods become more complex, a nationwide trading information network must be established to provide accurate signals to customers in order to improve trading efficiency and reduce trading costs.

2. Break down local blockading to reduce unwarranted local government interference in the foreign exchange regulation market, building a nationwide foreign exchange trading network for the gradual shaping of a unified and standardized foreign exchange regulation market.

3. Reform of the existing foreign exchange retention system. First is use of a spot exchange retention system to take the place of foreign exchange quota retention. Second is the gradual change away from the foreign exchange retention system whose main functions are encouragement and reward, and the compensation of losses to one whose main function is distribution, thereby linking the retention of foreign exchange to the use of foreign exchange, tilting in favor of industries and enterprises that state industrial policies encourage in order to improve the quality of foreign exchange dealings.

4. Improved control over the foreign exchange regulation market. Nationwide unified market regulations should be drawn up on the basis of national industrial policies and other economic policies as a means of standardizing market regulation activities everywhere and the actions of both buyers and sellers for the gradual building of an indirect form of control to replace the present direct interference. Regulation centers in all jurisdictions must change their way of operation, the provision of good service taking the place of the present direct interference.

5. Establishment of an equalization fund, the state buying at an appropriate price before readjustment of the exchange rate the retained foreign exchange quotas residual in all units for use as an equalization fund. At the same time, consideration may be given either to the state buying and selling in the regulation market, or buying foreign exchange at certain times, using the

renminbi funds that it currently uses to purchase the foreign exchange quotas that individual jurisdictions (or departments) turn over to the central government for compensation, the regulated rate thereby fluctuating within a zone that is either consistent with macroeconomic interests or a set regulated price so as to avoid great ups and downs set off by various chance occurrences.

As a second step, while continuing with the "pegging to a floating system" pilot projects for open foreign exchange markets should be operated (from 1992 to 1995 or thereabouts).

During this period, the "pegging to a floating system" will continue to be applied to the renminbi exchange rate, i.e., it will be pegged to special drawing rights primarily with reference to foreign exchange regulation market rates, slight readjustments being made from time to time for the formation of an exchange system possessing a certain amount of elasticity. Changes in exchange rates will result mostly from administrative intervention, the market regulation mechanism playing only a supplementary and referential role.

At the same time, consideration should be given to the selection of the Shenzhen SEZ, the Hainan SEZ, and the Shanghai Pudong Zone as pilot project sites for open foreign exchange markets.

The Shenzhen foreign exchange regulation market got off to a fairly early start. It does a substantial volume of business, and it has accumulated considerable experience. Its regulation center has regulated foreign exchange among enterprises at close to the market exchange rate, and foreign exchange in the hands of individuals may also be sold to the regulatory center. Shenzhen's economy is fairly closely linked to Hong Kong's; consequently, conditions exist for it to get a head start. The building of free convertability between the renminbi and the Hong Kong dollar may be envisaged together with exchanges with other currencies via the Hong Kong dollar, thereby establishing a highly elastic floating exchange system for the conversion of renminbi. Foreign exchange market dealings would be limited to enterprises, groups, and individuals in the SEZ. Strict supervision and control would have to be exercised over the sources and uses of market foreign exchange so as to avoid a negative effect on other parts of the country.

Because of its special geographical position, Hainan might also set up a fairly elastic floating exchange system permitting the free conversion within the SEZ of the renminbi and other currencies. Under guidance from the central bank, the SEZ government would enforce currency and exchange rate policies relatively independently. In order to avoid smuggling, dealings in contraband, and currency speculation, customs offices between Hainan Island and the interior might be given consideration.

Shanghai was once the largest financial center in the Far East. Restoration of Shanghai's former might is an

urgent requirement of China's opening to the outside world and economic construction. Both the CPC Central Committee and the State Council have already made the major decision to develop and open up Pudong in Shanghai, and the opening of foreign exchange markets is an important requirement for building of the Pudong open zone. As a part of building the open zone's export-led industry, foreign exchange markets can be set up in the zone to permit enterprises, groups, and individuals in the zone to enter into market buying and selling of foreign exchange insofar as this is consistent with regulations and policies, the rate of exchange fluctuating with the market, the zone making external settlement on the basis of the market exchange rate. Enterprises and individuals outside the zone would be forbidden to enter the markets.

The foregoing pilot projects could accelerate the building of the two SEZ's and the Pudong Development Zone. They would help attract and use foreign capital on a greater scale, and attract more foreign-owned banks to set up branches in these places, thereby enabling them gradually to become financial centers. This would give a large boost to the influence of China's economy in the Asia-Pacific region. Second is examination and accumulation of experiences in foreign exchange market operation and control to create conditions for China's future reform of the foreign exchange system.

The third step is to set up a controlled floating foreign exchange system (from 1996 to around 2000).

The setting up of a controlled floating foreign exchange system will depend on progress in reform of the economic system, and how well financial markets are built and perfected in a gradual transition from substantial administrative interference to fairly little administrative interference while maintaining controllability.

At the outset, "currency area control" may be instituted, market exchange rates maintained within a certain range around the official exchange rate through direct interference in market trading. Specifically, the central bank would supply or take in the buying excess or the selling excess, the exchange rate and the extent of its fluctuation being controlled by the foreign exchange trading center.

The change from direct to indirect intervention will require many associated conditions. Only when a new economic operating mechanism that links the plan economy with market regulation has been gradually set up, the socialist market system (including commodity markets, capital markets, and the share and securities markets) pretty well perfected, and the role of the market mechanism brought into full play can exchange rates be decided by market supply and demand. The central bank will intervene in foreign exchange markets as national economic policy requires, the equalization fund being the primary means of intervention supplemented by direct intervention as needed.

The building of a fairly complete foreign exchange market is the main ingredient in this stage of exchange

system reform. Perfection of the foreign exchange regulation markets during the previous stage will lay a good foundation for this. Foreign exchange market pilot projects can also provide experience for the transition from regulation markets to foreign exchange markets, and for the operation and control of foreign exchange markets. Insofar as various conditions permit, unnecessary entrance restrictions may be gradually eliminated, the foreign exchange limitation system abolished, and the exchange rate for the renminbi determined by foreign exchange markets. No longer will it be necessary for the central bank to public an official rate of exchange based on the purchasing power parity principle.

In the fourth step, the renminbi will become a convertible currency (after 2000).

China is a large country that has a global influence and an important position. The overall size of China's economy ranks ninth in the world today. With progress in reform and opening to the outside world, and economic development, by the middle of the next century, the overall size of China's economy will be in the front rank of the world. Its economic strength will increase enormously, and its position as a great economic power will become gradually established. Commensurate with this position as a major economic and political power will be the establishment of a renminbi exchange system having global influence that will enable the renminbi to become an international currency that ranks with the United States dollar, the British pound, and the Japanese yen.

A floating exchange system that permits the renminbi to become a convertible international currency will not, as some people imagine, make China's economy dependent on western economies. China's large country status means that we must pursue a basic national policy that is independent. In the process of China's economy fusing into the world economic system, we must both use to the maximum extent possible the world market conversion mechanism, and insure the independence of domestic economic policies and the initiative in economic development. The floating exchange system can best satisfy the independence of currency policy and the operation of foreign exchange policies. A look at the founding and development of the floating exchange system of developed countries shows a process that went from the post-war formation of the Bretton Woods Conference system (that is a fixed currency exchange system centering on the U. S. dollar), and its collapse with most Western nations changing to the floating exchange system. This demonstrates that the floating exchange system was both an objective requirement for economic development, and also enables these countries to maintain needed independence in currency exchange rate policies and economic development. Therefore, it is necessary to fully and completely understand the renminbi internationalization issue.

Requisite conditions for the renminbi to become a convertible international currency are, first, an exchange

rate having substantial elasticity, and, second, a marked increase in China's export strength, and basic improvement in its international balance of payments. The first condition was satisfied following implementation of a controlled floating exchange system. The second condition awaits success in China's implementation of a combination export-led and import substitution development strategy. This condition can be satisfied only after substantial improvement of economic strength and export competitiveness. Thus, a fairly long process is required. Since the shortage of foreign exchange will continue for a considerable length of time in China, once a controlled floating exchange system is put into effect, China will still have to maintain indispensable foreign exchange control system and capital control system measures, adopting definite limitations on inhabitants' possession of foreign exchange and capital accounts. Moreover, in the change of the renminbi into a convertible currency, the main focus will have to be on accommodating the external exchange and interflow of commodities, labor, and technology, as well as accommodating the inflow of foreign capital, i.e., becoming an externally convertible currency.

Criteria for the renminbi to become an international currency are as follows: (1) becoming a major international reserve currency; (2) substantial use in international settlement of accounts; (3) becoming a major means of payment that all countries accept. Thus, a long, gradual process will be required for the renminbi to become an international currency that ranks with the U.S. dollar, the Japanese yen, and the British pound. This can be realized only through an increase in China's economic strength, and the rise in the prestige of the renminbi. Eagerness for success and ideas about trying to accomplish the feat in a single stroke will not work. However, once this goal has been realized, China will be able to turn around completely its unfavorable position in the international division of labor and exchange, and will occupy an unassailable position globally in the contest and competition for overall national strength.

### Stronger Action Urged To Curb Population Growth

91CE0736A Dalian CAIJING WENTI YANJIU  
[RESEARCH ON FINANCIAL AND ECONOMIC  
PROBLEMS] in Chinese No 7, 5 Jul 91 pp 1-7

[Article by Feng Gongqi (7458 1872 4388): "My Humble Opinion on Setting Up a Population Inflation Audit"]

[Text] Editor's Note: *An audit of the population problem has never been conducted in ancient or modern times either in China or abroad. Perhaps many people who hold a traditional view of audits do not approve of this idea. The author believes that over the long term, the population problem will be placed on the audit agenda sooner or later. This will be the case for the whole world, and it will surely be the case for China. As with any audit work, such an audit will begin with an "examination of the ledgers," followed by a "benefits audit." Whether overall benefits*

*can be increased will depend to a large degree on the limitations that population impose judging from China's present economic circumstances. Therefore, an audit of the population problem must be done.*

China's fourth census shows a total population of 1.16 billion (including Hong Kong, Taiwan, and Macao). Not only is China the world champion in population size, but it has increased overly fast in recent years. Unless it is effectively curbed, at the present speed of increase (14.33 per 1,000 per year), by 2000, it will break the 1.3 billion barrier,<sup>1</sup> greatly exceeding the originally prescribed 1.2 billion control goal. Overly rapid population growth is bound to cause a series of serious and irreversible consequences for the national economy and the people's standard of living. The outlook is worrisome. This article will discuss my humble personal views on effective control of population growth and recommend the setting up of a "population inflation audit."

### **Population Crisis Quietly Approaching**

The harbingers of China's population crisis are as follows:

#### **First, Population Inflation Is of Long Duration, But New Pressures Have Been Faced in Recent Years.**

History records that in the second year of the reign of Diyuhan during the closing years of the Western Han Dynasty (AD 2), China's population stood at 59.59 million. In the more than 1,500 years thereafter, however, as a result of plagues, catastrophes, and the turmoil of warfare, by the sixth year of the reign of Wanli toward the end of the Ming Dynasty (AD 1578), China's population was still about 60.69 million. Since the beginning of the Qing Dynasty, population has grown rapidly. During the sixth year of the reign of Qianlong (AD 1741), it stood at 143.41 million. By the sixtieth year of the reign of Qianlong (AD 1795), it spurted to 2,969,690,000 [sic. 296.90 million was probably intended], doubling in slightly more than 50 years. During the last years of the Qing Dynasty, it remained at somewhat more than 400 million.<sup>2</sup> When new China was founded, the population was 541.67 million, and by 1988 it doubled again.

The absolute value of China's population increase is getting bigger and bigger, the time required for each 200 million increase becoming markedly shorter. China's first 200 million population increase figured from the date contained in the historical record until 1760 took several thousand years. The second 200 million population increase, i.e., from 200 million to 400 million, which was reached in 1900, took about 140 years. The third 200 million increase, i.e., from 400 million to 600 million, which was reached in 1954, took 54 years. The fourth 200 million population increase, i.e., from 600 million to 800 million, which was reached in 1969, took only 15 years. The fifth 200 million population increase, i.e., from 800 million to 1 billion, which was reached in 19 years, was even shorter at 13 years. The sixth 200 million population increase, i.e., from 1 billion to 1.2

billion, is forecast for 1994, or approximately 12 years. The net increase each year is now 16 million, a size equal to the population of a medium size country. The situation is grim.

### **Second Is an Upturn in the Birth Rate**

From 1949 through 1973, China maintained a fairly high birth rate of approximately 30 per 1,000. Thereafter, the birth rate declined for a time. From 1976 through 1985, except for an occasional year, the birth rate was generally lower than 20 per 1,000. However, during the years 1986, 1987, 1988, and 1989, the birth rate took a marked upturn to 20.77, 21.04, 20.78, and 20.83 per 1,000 respectively. At the same time, the death rate declined to a general 7 per 1,000. This upturn in the birth rate and downturn in the death rate is bound to lead to a continuing rise in the natural rate of increase.

### **Third, the Population Urbanization Trend Is On the Rise**

Population urbanization is a world trend. According to United Nations statistics, in 1985, 2 billion of the world's population lived in cities. This was approximately 42 percent of total world population. Forecasts call for more than half of the world's population to live in cities by 2010. This trend will be most marked in the developing countries of Latin America and Africa. In China, the trend toward urbanization of the population has also been accelerating in recent years. Because China practiced a product economic system for a long time in which the degree of commercialization was not high, channels for the flow of commodities were impeded, and movement of personnel was not great, the tendency for population to congregate in cities was not marked. After the beginning of the 1980's, however, development of the country's commodity economy speeded up. Spurred along by policies that invigorated and opened up the economy, both commodity flow and personnel contacts rapidly increased. Large numbers of peasants entered cities to open shops, set up plants, or engage in procurement and marketing activities. The momentum of the population shift to the cities could not be contained. Today, cities in China with a population of more than 1 million (exclusive of the agricultural population, and the same applies hereinafter) number 30, and those having a population of more than 500,000 but less than 1 million number 28. The nonagricultural population in just these 58 cities totals 79.87 million. In addition, the steady increase in urban organizational systems and the steady expansion of the scale of cities and towns have also caused a relative concentration of the urban population. The floating population that does not live in the city but works in the city is even greater. According to incomplete statistics, Beijing's floating population now numbers more than 1.5 million; Shanghai's has reached 2 million, and Guangzhou's has reached more than 1 million. In some other large cities, it is several hundred thousand. The floating population nationwide numbers approximately 70 million.

The urbanization of population means an overconcentration of inhabitants, which further adds to the population's sense of pressure. A United Nations report pointed out that a city of 1 million daily consumes 630,000 tons of water, 2,000 tons of food, and 9,500 tons of fuel. In addition, it has to get rid of 500,000 tons of waste water, 2,000 tons of garbage, and 950 tons of waste gas. Demographers warn that the sharp increase in urban population results in a steady worsening of living conditions, and that unless effective action is taken, by the end of the present century some cities will become uninhabitable. Statistics compiled on life in Beijing show that at the low standards of the 1980's, for every 100 increase in population, an approximately 1 million yuan increase in investment for urban investment is needed; each year 14,000 additional kilograms of grain, 1,600 kilograms of pork, 17,000 kilograms of fresh vegetables, 1,050 kilograms of fresh milk, 2,300 kilograms of liquified gas, and 2,500 cubic meters of piped gas must be provided...the seriousness of the imbalance between supply and demand is clear.

#### **Fourth, Early Marriage and Early Childbearing Is Like Adding Fuel to a Fire for Population Inflation.**

During the 1960's and 1970's, the marriage age for Chinese adults was delayed in varying degrees for various reasons. Society also regarded late marriage and late childbearing as a virtue in response to the nation's call. This played a definite role in slowing population increase. In recent years, however, as people have gradually become more prosperous, detrimental practices such as ostentation and excess, conspicuous consumption, extravagance and waste have greatly come to the fore. This has been reflected in marriages and childbearing in the form of sumptuous marriages, and "early bearing of a scion." Early marriage is regarded as a glory and early childbearing as a blessing, with the result that people vie with each other. Thus, one wave drives another in the high tide of early childbearing, making control increasingly difficult. A survey done in Hebei Province shows that the average age at which rural females marry has moved ahead to 18.6 years olds for a virtual reversion to the nationwide average of 1949. A random sampling showed that during the period 1981 through 1987, approximately one-fifth of women nationwide who did not practice planned parenthood had their first child before the age of 20.<sup>3</sup> In addition, early marriage plays a very great role in early love affairs. Nowadays, love affairs among middle school students are very common, and there are also such reports from time to time about junior middle school students. Early marriage propels early love affairs, and early love affairs set the stage for early marriage.

#### **Fifth, a "Black Market Population" Having No Household Registration Is Rampant Everywhere.**

China's registered household population is more than 1.1 billion today. No one can provide accurate figures for the unregistered population. A Public Security Bureau survey showed more than 1 million unregistered children

nationwide, and the actual figure is naturally far, far greater than this. (1) Children born outside of the planned parenthood quota are increasing with each passing day, and the number in rural villages is particularly astounding. Many peasants prefer to have more children even if they have to pay a fine. Still other peasants leave their native village to take up the life of wanderers in order to avoid planned parenthood supervision, their sons and daughters joining an every expanding "excess births guerrilla band," or a "roving band of birth control evaders." Reportedly, some rural women around 40 years of age have had eight pregnancies. They travel from place to place begging. (2) Educated youth sent to frontier or remote areas, or sent up to the mountains and down to the countryside during the 1960's and 1970's established families in those places, and some of them have produced children. In recent years, however, with the movement of the labor force, they have also flowed back into the cities to live a hand-to-mouth existence. Not only have these people themselves lost their official jobs and their household registration, but they do not want household registration even for their newborn children who become long-term "illegals." (3) Some powerful rural grassroots cadres or persons in charge of planned parenthood units disregard planned parenthood regulations to have excess children in flagrant violation of regulations. Until they have a son, they swear not to give up no matter how many girls they may have. No wonder that the following saying circulates among the populace: "People who have money buy children; people who have power bear children openly; audacious people snatch children; and the moneyless and the powerless have children in secret." The "black market population" has become a social problem that cannot be belittled.

#### **Lowering of Population Quality a Serious Hidden Danger to the Nation's Strength**

The country's population problem shows up not only in loss of control over size, but also in a lowering of quality.

#### **First Is a Generally Not Very High Educational Level**

According to the fourth census, only 1.42 percent of the population has a college education, 8.04 percent has a senior middle school education, 23.34 percent has a junior middle school education, and 37.06 percent has only a primary school education. Clearly more than 90 percent of the population has only a primary school education and a junior middle school education, or is illiterate or semi-illiterate. Not only can China not compare with developed countries, but the gap between it and some developing countries is not small either. In addition, the number of illiterates and semi-illiterates over 15 years of age in China still stands at 180 million or 15.88 percent of the total population, and accounts for approximately one-fourth of the whole world's illiterates or semi-illiterates. For a large socialist country that has been building for 40 years, and that has conducted numerous campaigns to eradicate illiteracy, the continuing rise in illiteracy in China cannot but make people

feel remorseful. Because of the poor educational level, many jobs cannot be performed readily. The reason for the by no means ideal results achieved in China's call for the building of spiritual civilization for many years must be said to be related to the poor educational level of the people.

#### **Second Is No Lack of People of Low Intelligence.**

It has been estimated that China has more than 10 million dull-witted people, which is more than 1 percent of the country's total population, and the number continues to increase each year at a rate of several hundred thousand. An overwhelming majority of these dull-witted people are found in rural villages. Not only are they unable to create value and make any contribution, but the state and their families have to spend 1 billion yuan annually to support them. They become net consumers who do not work yet eat. A radio broadcast said the following (1) Five of seven people in a certain rural household in Beijing were dull-witted. The family was as poor as church mice, so they were entirely dependent on relief for a living. (2) In a certain village in Heilongjiang Province, more than half of the 1,200 villagers are dull-witted. One can just imagine the economic circumstances they are in. (3) In a certain rural household in Guizhou Province, five out of eight children born were dull-witted or of low intelligence. The number of people having a fairly low intelligence is difficult to determine. Certainly there are many reasons for dull-wittedness and low intelligence; however, ignorance and intermarriage among close relatives are doubtlessly prime reasons.

#### **Third Is Large Numbers of Ill and Handicapped People**

In China, there are approximately 50 million people who have been unable to work for a long period of time because of illness, or who are handicapped in varying degrees. Some of these people can take care of their own living and medical expenses, while others depend on labor insurance or social relief. Relevant data show an annual nationwide expenditure of between 7 and 8 billion yuan for medicine and sustenance for sick and handicapped children alone. This has become a heavy burden.

#### **Fourth Is the Extraordinarily Marked Feudal Superstition of Quite a Few People.**

The enormous latent fecundity of China is mostly in rural villages, and the crux of population inflation is also in rural villages. However, the influence on rural villages of several thousand years of feudal rule runs particularly deep. Superstition is particularly strong, and traditional ideas are deeply ingrained there. "The more one's sons the greater one's blessing," is a common peasant desire. Consequently, the promotion of planned parenthood frequently meets considerable opposition. Furthermore, the contracting of production to individual households also increased the urgency of peasant households' need for a work force. In addition, the small agricultural economy style of production seeks a large work force

alone without regard for education and technical skill, and feudal superstition in rural villages remains as it always had been.

#### **Fifth Is a Generally Fairly Low Work Force Quality.**

An overwhelming majority of China's far-flung rural villages still farm by traditional methods. Those who use modern equipment and technology may be said to be as scarce as hen's teeth. In industrial enterprises, the technical level of most workers is also fairly backward. Surveys conducted during the past several years show that 68 percent of workers in factories at the basic level, 30 percent at the medium level, and only 2 percent at the high level. Although worker's wage grades have increased as a result of several wage adjustments during the past several years, there has been no corresponding rise in their technical level. Quite a bit of the advanced equipment imported from abroad frequently cannot be used very well, and some of it simply stands idle.

#### **Relative Insufficiency of Resources; Contradictions Increasingly Sharp**

It is for good reason that China has been known since ancient times as "a vast country abounding in natural wealth." However, with the long multiplication of the population, and the large scale exploitation of resources, per capita reserves have worn thin.

#### **First Is a Gradual Reduction in the Cultivated Land Area.**

The earth's land area is basically fixed, but as a result of constant changes in the natural environment (including desertification, salinization, regression of grasslands, and the filling in of the sea to make land), little land is added while much is lost. In particular, the unlimited inflation of population results in relative restriction of the amount of available land. China covers a vast land area. It is the third largest country in the world. But it does not have very much arable land. After deducting the mountain ranges, the streams, the deserts, the grasslands, the forests, the lakes, the roads, the houses, and edifices, the arable land area is no more than 1.44 billion mu, or only 10 percent of the total land area. Following the founding of New China, the amount of cultivated land increased, thanks to the reclamation of wastelands. After 1957, however, the cultivated land area declined precipitously in a straight line while the population rose sharply year after year. The amount of cultivated land decreased from 2.82 mu per capita in 1952 to 1.27 mu in 1990, a decline of more than one-half. Today, the amount of cultivated land per capita is only approximately 30 percent of the world per capita amount, and it continues to decline by several million mu each year. Calculations show that by 2000, the country's cultivated land will decrease further to approximately 1.3 billion while the amount of newly reclaimed land will be limited, and the population will increase during the same period to 1.3 billion. Only 1 mu of cultivated land per capita will be left. The problem of a large number of people on a small amount of land is extremely prominent. How can a comfortably well-off life be achieved if

we have to depend on the agricultural by-products that a single mu of cultivated land per capita provides? China has approximately 3.37 billion mu of usable grasslands, or 3 mu per capita, less than one-third the world per capita figure.

### **Second, Fresh Water Resources Are in a Precarious State.**

During the modern era, the use of water for production and daily life has risen everywhere in the world, but freshwater resources are not abundant. As a result of population pressure, currently more than 40 countries in the world suffer from a serious water shortage, and quite a few cities increasingly experience water shortages. People are well aware that in the Persian Gulf region: water is more precious than oil. China's rivers discharge 2.65 trillion cubic meters of water annually, but the amount per capita has dropped to 2,338 cubic meters, less than one-fourth the world per capita figure. Furthermore, there are conspicuous weaknesses in the distribution of China's water resources: first, the areas of water distribution are extremely uneven, much in the south and little in the north. In the basins of the Huang, the Huai, and the Hai rivers, water is scarce relative to land, and insufficient to satisfy the needs of production and daily life. Second, the amount of rainfall varies with the seasons, most of it falling during the period when summer turns to fall, but little falling in other seasons. This creates a high-water season with floods and waterlogging, and a dry season when the water stops running. In addition a wide variation exists in the volume of water in wet years and parched years, which causes frequent flood or drought disasters. Third water resources and mineral resources (such as coal, iron, and petroleum) are not found together. Where there is water, minerals are lacking, and where there are minerals, water is lacking. This hurts the development of industry. A shortage of water in cities is also a frequent occurrence. In 300 of China's more than 400 cities, a water shortage exists to varying degrees, nearly 100 cities having a serious water shortage of more than 10 million cubic meters per day. North China industrial cities, in particular, face the threat of a serious water shortage during the dry season.

### **Third Is Steadily Deteriorating Forest Resources.**

Relevant data show that during the second century B.C. the world forest area was 18 hectares per capita. Today it has fallen to 0.63 hectares. As a result of excessive felling and land reclamation, the world's forests decrease at nearly 1 percent per year, and tropical forests decline by 11 million hectares each year. In China, which never had large forested areas to begin with, the forest resources danger is particularly alarming. China's forest area is now only 1.73 billion mu, its cover rate falling to 12 percent, a cover rate that is far lower than the 22 percent world average. Among the more than 150 countries in the world, China ranks one hundred twentieth. Its forest reserves amount to no more than 10.572 billion cubic meters, which is less than one-seventh the per capita average for the world.

Yet another aspect of China's forest resources crisis is the increasing forest deficit. The afforestation carried out during the past 40 years has not kept pace with the felling of trees. More is cut than is afforested; felling is quick, but growth is slow. Currently 400 million cubic meters of forest resources are consumed each year, but less than 300 million cubic meters grown. Furthermore, the quality of the timber is going from bad to worse for a decline in the utilization rate. If this goes on for long, the day may come when there are no forests to be felled.

### **Fourth, Mineral Prospects Are On the Decline.**

Some people suppose that many kinds of mineral resources in the land are rapidly declining and that they can probably be mined for only several decades. Minerals cannot be renewed, so sooner or later the day will come when there are no more to be mined. China has a fairly full range of minerals. More than 162 different ones have been discovered, and there are proven reserves of 148 different ones. China ranks first in the world in some mineral reserves. Nevertheless, it must be clearly realized that China's reserves of major minerals are far lower than the world per capita amount, standing 34th from the bottom in the world. Reserves of some minerals are not sufficient to meet the needs of the four modernizations and the expansion of reproduction. Although reserves of some minerals such as iron and copper cannot be considered small, their quality is not high. Most are poor grade ores whose value is fairly low. China has a shortage of quite a few nonferrous metals. Actual output of numerous minerals can satisfy only approximately 60 percent of needs. Imports must be relied on for a large portion. Since nonferrous minerals are expensive, the amount of foreign exchange that has to be spent is not at all small.

Among the minerals used for energy, coal reserves are termed the country's trump card. Per capita reserves are no less than half the world's. Proven petroleum reserves do not permit optimism; per capita reserves are only equal to one-eighth of the world's, and per capita reserves of natural gas are only one-twentieth that of the world. Energy is the food of industry, and it is also indispensable to the people's livelihood. Insufficient energy reserves cannot be anything but a potential threat.

### **Population Inflation Seriously Limits Economic Development and Improvement of Livelihood**

Too rapid population growth inevitably creates consequences for development of the national economy and improvement of the people's livelihood, thereby limiting and delaying the process.

#### **1. Difficulty Raising Per Capita GNP**

The country's production and standard of living have both risen remarkably since founding of the people's republic, but World Bank statistics show that China's per capita gross output value in recent years has fluctuated around \$3000, making it one of the world's 30-odd low



income countries. Many reasons account for this situation, but too large a population and too rapid growth are irreversible number one factors. According to departments concerned, approximately 20 percent of China's newly added national income each year is consumed by new additions to the population. China's goal is a per capita GNP of more than \$800 by the end of the present century, but this goal is based on a population of no more than 1.2 billion. Should the population increase sharply, it is feared that attainment of this call will remain out of reach.

Year	1979	1980	1981	1982	1983	
Per Capita Output (Kg)	341	325	325	349	377	
Year	1984	1985	1986	1987	1988	1989
per Capita Output (Kg)	392	361	368	375	360	367

As a result of the year-by-year decline in the amount of cultivated land, difficulties in increasing yields per unit of area are considerable. Each year an additional more than 16 million people are added to the population, and the people regard food as heaven itself. This cannot be treated lightly. Furthermore, unless per capita grain yields rise, poultry and livestock raising, which depend on grain, will have to be abandoned, and the production of foods and alcoholic beverages that use grain as a raw material will also have to be limited. Thus, improvement of the standard of living is handicapped at every turn by population.

### 3. Ever Increasing Fiscal Subsidies Too Great a Burden on the State

In order to stabilize market prices as a means of supporting the people's livelihood, the state provides price subsidies for the main agricultural by-products, as well as for some of the agricultural means of production. This is of longstanding. In recent years, however, rapid expansion of the procurement and market price inversion, plus the sharp increase in population has meant repeated rises in total price subsidies, which have increased from 7.9 billion yuan in 1979 to 37 billion yuan in 1989. Moreover, after 1985, some subsidies changed from hidden to open becoming part of wages; otherwise, the total subsidy bill would be even greater than this figure. Both hidden subsidies and open subsidies are a serious burden on the state, which greatly drain the state's financial revenues making it impossible to release funds to hasten economic construction and the development of production. Precisely speaking, the price paid for overly rapid population increase is the sacrifice of economic and social development. In 1986, it was estimated that the cost of raising a child to 16 years of age, all expenses involved, was 18,740 yuan in cities and towns, 36.5 percent of which society met, and 63.5 percent of which the family met. In rural villages, the cost was 6,695 yuan of which society met 20.1 percent and the family met 79.9 percent.<sup>4</sup> Actually, with the rise in prices during recent years, the cost is far grater than these figures.

### 2. Progress Slow on Per Capita Grain Output.

China's gross output of grain has risen substantially during the past 10 years, but per capita output has not risen much. During the best harvest year of 1984, per capita grain output approached 400 kilograms only to turn downward again in the following year. It has yet to revive to the best level.

### 4. Limited Water Resources But No Limit on Population Is Bound To Hurt Production and the Standard of Living

As was said above, China's water resources are in extremely short supply. As a result, quite a few factories have to cut back production or halt work for lack of water. Some enterprises cannot be built because water cannot be provided. The ideal way of moving coal out of Shanxi Province is via a pipeline, but because of the lack of water resources in Shanxi, this is only an idle dream. It has been estimated that the water resources problem nationwide hurts more than 2 billion yuan of industrial output value each year. In cities, a scene of the resident's water drainage corps waiting for water can be seen everywhere. In North China rural areas, crop output declines because crops cannot be planted on time for lack of water. Because of the increasing desertification of grasslands for lack of water, the amount of livestock they are able to support has declined. Because of the unavailability of water, the "bright pearl of North China," Baiyandian [the largest lake on the Hai He Plain], has dried up several times, and it still does not have an abundant water volume. The land of fish and rice has become a saline waste in a thrice. The Hai He basin increasingly shows signs that its water resources are drying up. Today, only 26 percent of China's cultivated land is paddy; thus drylands account for 74 percent. Raising crop yields will require the conversion of some drylands to paddy, but the water problem will exert a drag.

### 5. The Retreat of the Forests With the Advance of Man Goes On Endlessly

The continuous inflation of population creates a boundless demand for lumber. The need for lumber for production, lumber for construction, lumber for houses, and lumber for furniture increases steadily, causing excessive felling and the rise of lumber prices in a straight line. Some lawless elements, intent only on profit, poach timber, causing a sharp decline in forests. Peasants in coastal Zhejiang who became wealthy busied themselves with the destruction of forests to take over a mountain for tomb building, countless white tombs protruding



between the green mountains and the emerald waters. In addition, the amount of lumber consumed to make coffins was also alarming. These activities resulted in a vicious cycle of the greater the population increased the greater the decrease in forests.

The sharp decline in forest resources has also led to a dramatic increase in soil erosion, expansion of the area of desertification, a lowering of the water level in rivers, and frequent mountain torrents followed by drought that will bring a series of future troubles to agricultural production and the peasants' livelihood. The area of soil erosion in China has already spread from the 1.16 million square kilometer area of the period immediately following founding of the people's republic to the present more than 1.5 million square kilometers, or 15 percent of the country's total land area. The nitrate, phosphate, and potash fertilizer that is washed into the sea each year as a result of the runoff of 5 billion [units not given] of topsoil is equal to tens of millions of tons of chemical fertilizer each year.

#### 6. Employment Prospects Dim for Surplus Labor

The limited amount of cultivated land, the insufficient resources, and the huge population is bound to produce a surplus of labor. Already rural villages have a nearly 200 million labor surplus. The fields already have more people than they can support, and the main way out is township and town enterprises. Although township and town enterprises have developed rapidly in recent years, a very large number of them have a shaky foundation; they cannot find markets for the products they produce; their equipment is antiquated; their technology is backward; they consume too much; costs are too high; they seriously pollute; management is poor; and their economic returns are low. Some of them cannot withstand the fierce competition that exists in the great sea of the commodity economy. Their prospects are not good. Their ability to take in for long the large amount of additional labor deserves deep thought.

In urban entrepreneurial units, a substantial portion of staff members and workers are actually hidden unemployed. Overstaffing exists; the labor productivity rate is low; and large numbers of the work force cannot be used to the full, yet suitable arrangements for solving the problem are lacking. Numerous enterprises have to permit some of their middle age and old staff members and workers to retire early in order to place young people. Thus they increase their payments of retirement funds. It has been estimated that by the end of the century, China will have 50 million retired staff members and workers. Retirement fund payments will amount to at least 70 billion yuan annually. In other words, China's gross output value will approximately quadruple over a period of 20 years, but its retirement expenses may quintuple. This is a prospect that makes one shudder.

#### 7. Disadvantages for the Development of Enterprise Competition and Implementation of the Bankruptcy Law.

Enterprise competition is part and parcel of a commodity economy society. No competition means no pressure, no motivation, and no vitality. However, in order to compete, it is necessary to reduce redundant personnel, get rid of burdens, and increase economic returns. In quite a few enterprises today, however, an abnormal situation exists of two people doing the work of one, and five people depending for a living on what three people can earn. Were a general retrenchment to be carried out, it would be impossible to find a satisfactory way to provide for so many retrenched personnel. China has promulgated an enterprise bankruptcy law, but delays have occurred in applying it since objective conditions are not in readiness. The most crucial and most thorny problem is placement of staff members and workers following bankruptcy. If new employment is found for them, obviously a case of not having enough to go around will result. Were they to be provided with relief for a long period of time, this would become a bottomless pit. It is for these reasons that the mountain has labored only to bring forth a mouse in competition and bankruptcy.

#### The Population Inflation Problem Must Be Placed Under Strict Audit Supervision

We cannot wait passively for a solution to population inflation; we must study solutions to it as a matter of primary national importance. Strong propaganda and education cannot be relaxed in the slightest, and birth control measures must also be pursued without ceasing. As an accompaniment, a "population inflation audit" must be established to exercise real supervision over reproduction and related issues. A combination of administrative, economic, and legal measures must be adopted to control excessive population increase.

First, the need and the feasibility of a "population inflation audit" must be spelled out.

As soon as the word "audit" is mentioned, people are accustomed to associating it only with the examination and supervision of government financial receipts and expenditures, and related economic activities. Audit does indeed mean this, but the ultimate goal of an audit in terms of development concepts is a major effort to improve economic returns. In western countries, this means the economic returns of enterprises, which is to say microeconomic returns. China, being a socialist country, it means not only improving microeconomic returns, but more importantly the improvement of macroeconomic returns, social benefits, and ecological benefits. When society and the economy develop to a certain point, increasing macroeconomic returns and improving ecological benefits are unavoidable, complicated, and limited by the population problem. Thus, the deeper the audit of economic returns, the greater the need for a population inflation audit. This goes without saying. What is more, none of the various fields of scientific

inquiry is immutable. One must always go from the lesser to the greater, and from the superficial to the deep. Naturally, auditing is no exception. At its most basic, an audit is essentially an examination of ledgers. The traditional method is to examine the legality and the accuracy of accounting data, gradually making the data more complete as economic activity expands. "Management audits," and "efficiency audits" have gradually come into their own during the past 30 or 40 years, and they have not been perfected as yet. An efficiency audit is not limited to accounting data nor does it necessarily involve financial receipts and expenditures. Concepts such as marginal costs and opportunity costs are clear examples. Therefore, it should not be surprising that audit supervision of population problems, resources problems, ecological balance problems, environmental protection problems, and basic urban facilities problems should be the future trend. In real economic life, some people are also indeed conducting indefatigable examinations of certain matters. A case in point is the preliminary audit during the past several years of environmental protection in Caizhou City in Shandong Province, which has produced definite results.

People cannot help asking whether a "population inflation audit" is not just something created to be new and different, and thus is not needed, since they have never heard of it, since developed countries do not have it, and since developing countries do not have it either. In fact, this is a special measure that is advocated because of China's circumstances. Since population growth in developed countries has already been appropriately controlled, the rate of increase is very low and, in some cases, a negative figure, naturally no need exists for audit supervision of the population problem. In some developing countries, however, the rate of population increase is fairly high. It should be controlled and supervised. However, because of the lack of a uniform perception and a fairly low overall management level, auditing work in these countries has yet to be regularized. Were one to conduct a population audit, though the spirit might be willing, the flesh would be weak. This is not the case in China. Not only is a "population inflation audit" necessary and urgent, but an audit organization of fairly high prestige and rather good quality exist that makes this task feasible.

Second, is the need to perfect the legal system, and to draw up a "population code" and detailed regulations for enforcing it in order to limit childbearing.

Those who bear more children than family planning allows must be dealt with severely. They cannot be tolerated. Once a "population code" has been drawn up, they may be punished according to law, including the use of economic and administrative measures. For example, a district or unit that has more children than family planning allows would not be entitled, as a result, to increased investment in housing, government financial subsidies, or cultural, educational, and welfare facilities. Not only would staff members and workers or residents who have more children than family permits be fined, but

their taxes would be increased, they would be responsible for paying for their own medical care, they would have to pay their own educational expenses, and they would not be allocated housing. Other land would not be apportioned to them, a portion of their bonuses would be deducted, and they would not be allowed to take part in contracting or bidding to rent land. In serious cases of failure to reform despite repeated admonition, violators might have their grade and wages lowered, be removed from their position, and have part of their property confiscated. Those who break the population law, selfishly seek private gain, and violate the law while being sworn to uphold the law, should be punished as criminals. All these laws and regulations must be enforced by authorities responsible under supervision of an audit agency.

Next is audit agency conduct of "population inflation audits" according to law.

A so-called "population inflation audit" consists first of an audit of the legality and reasonableness of childbearing, as well as whether the birthrate is high or low. Second is an audit of changes in population quality. Third is an audit of the trend toward urbanization of the population. Fourth is an audit of "population code" enforcement by all units, areas, and units, economic punishments meted out and administrative actions taken. Fifth is an audit of whether population control units (including planned parenthood, and household registration units) have done their jobs in a conscientious and responsible manner, and whether they have violated the law and discipline. Ordinarily, a regular reporting system should be established to facilitate the timely feedback of childbearing information, to check on work results, to uncover problems, and to deal with matters promptly.

Finally is an audit of expenses related to planned parenthood.

According to recent reports, the problem of economic crimes on the part of planned parenthood cadres in certain places should be looked at closely. They endanger the planned parenthood policy and effective population control. For example, some cadres have embezzled planned parenthood funds, and made fraudulent claims and applications for public funds. Some have fished in the troubled waters of "fines for excess births" to line their own pockets. Some have taken bribes from "excess birth households," thereby opening wide the door to those who have more children than planned parenthood allows. Some have diverted planned parenthood funds to the running of business from which they make a profit. Clearly, the current system for controlling planned parenthood funds and fines is not strict enough and procedures for requesting reimbursement are not complete, thus permitting loopholes of all kinds. All these matters are extremely bad for population control; thus greater audit supervision is needed.

### Concluding Remarks

"Population inflation audits" are a brand new task for which past experience offers no guide. Nor can helpful precedents be found abroad. Mostly it will be necessary constantly to revise and augment procedures through practice in accordance with national circumstances and population increase, starting from scratch and gradually perfecting them. If necessary, pilot projects may also be run in certain places, certain sectors, or certain units. Then experiences can be summarized and gradually spread. Not only is the serious attention of higher authority needed, but enthusiastic support from all walks of life, widespread creation of public opinion, and mutual coordination be obtained to improve audit results, thereby helping the country's national economic development to improve the people's standard of living and population quality.

### Footnotes

1.  $1,160,017,381 \times (1 + 1.433\%)^{10.5} = 1,346,965,782$ .
2. JINGJI RIBAO 27 January, 21 February, and 25 March 1983.
3. JINGJI RIBAO 24 January and 22 February 1989.
4. JINGJI RIBAO 10 January 1989.

### MOFERT Official on Problems in Sino-U.S. Trade

92CE0029A Beijing GUOJI MAOYI [INTERTRADE]  
in Chinese No 7, 27 Jul 91 pp 4-7

[Article by Sun Zhenyu (1327 2182 1342), director of the Ministry of Foreign Economic Relations and Trade's American and Oceanian Affairs Department: "The Status Quo of and Problems That Exist in Sino-U.S. Foreign Economic Relations and Trade"]

[Text] Former U.S. President Nixon's visit to China in 1972 was a historic turning point in Sino-U.S. relations. Since its beginning at that time, Sino-U.S. trade has also increased steadily. By the time official PRC-U.S. diplomatic relations were established in 1979, Chinese statistics showed that the Sino-U.S. trade turnover had reached \$2.4 billion. By 1990, it had further increased to \$11.8 billion, or almost five times that of 1979. The United States has become China's third largest trading partner, behind only Hong Kong and Japan.

Since China and the United States established diplomatic relations, they have signed agreements, such as the "Sino-U.S. Trade Relations Agreement," the "Sino-U.S. Industrial Technology Cooperation Agreement," the "Sino-U.S. Textiles Agreement," the "Sino-U.S. Fishery Agreement," and the "Sino-U.S. Agreement To Prevent Double Taxation," which have laid a good groundwork for the development of Sino-U.S. foreign economic relations and trade.

By the end of 1990, U.S. businessmen had invested in over 1,300 projects in China (including cooperative offshore oil exploration), for which they had reached agreement on \$4.3 billion in investment and actually invested \$2.1 billion, and which had made the U.S. investment in China larger than that of any country in the world. Most of the Sino-U.S. joint-venture enterprises in China that have already gone into or are beginning operation, such as the Beijing Jeep Corporation, Ltd; the Beijing Babcock & Wilcox Corporation, Ltd; the Guangzhou Met Container Corporation, Ltd; the Tianjin Otis Elevator Corporation, and the Tianjin Sino-U.S. Smith-Kline Pharmaceutical Factory, are doing very well. Some U.S. companies are now holding talks on certain new joint ventures.

The hard-won development of Sino-U.S. foreign economic relations and trade to its current level, has been the result of joint efforts by the governments of and industrialists and businessmen from both countries. The continued maintenance and development of Sino-U.S. foreign economic relations and trade, is in keeping with the long-range interests of both Chinese and Americans.

As the United States is the largest developed country and China is the largest developing one, the U.S. and Chinese economies are very mutually complementary. China needs U.S. advanced technology and management expertise, investment, and markets, and the United States needs Chinese markets, manpower, and good but inexpensive commodities. China imports from the United States every year large amounts of goods, such as wheat, cotton, chemical fertilizer, lumber, paper and pulp, aircraft, technology, and equipment, while U.S. imports from China of goods, such as clothing, textiles, edible oil, native livestock products, industrial chemicals, and electronics products, are also increasing year after year. As the Sino-U.S. trade turnover now accounts for only about 1.5 percent of U.S. foreign trade, there is a great potential for expansion of Sino-U.S. trade. The crucial issue is how both countries can strive to create a good environment and atmosphere for foreign economic relations and trade cooperation, so that industrialists and businessmen from both countries are motivated and confident enough to devote their efforts to Sino-U.S. foreign economic relations and trade cooperation, in order to bring the trade potentials of both countries into full play.

Certain problems that urgently need to be solved now exist in Sino-U.S. foreign economic and trade relations. It will be of extreme importance to the development of Sino-U.S. foreign economic relations and trade to deal with these problems properly.

### I. China's Most-Favored-Nation Status

China and the United States grant each other most-favored-nation (MFN) status. The MFN clause was the most important provision of the Sino-U.S. Trade Relations Agreement, and is the cornerstone of Sino-U.S. foreign economic and trade relations. If the United States discontinued China's MFN status, China would be forced to rescind the U.S. MFN treatment, which would not exclude the possibility of taking certain other

retaliatory steps. This would be bound to severely damage Sino-U.S. relations, bilateral foreign economic and trade relations in particular and thus, both sides' economic interests. Chinese exports to the United States would be severely affected on one hand, while the interests of many U.S. consumers would be affected on the other. The ability of U.S. manufacturers and business firms to compete with Chinese markets would be further weakened, and the their Chinese market share would decrease sharply. Moreover, Hong Kong exports to and entrepot trade with the U.S. would also be severely affected. Hong Kong estimates that it would lose over \$10 billion in trade, and that over 20,000 of its workers might lose their jobs, which would severely affect Hong Kong's stability and prosperity. Of course, the interests of many U.S. companies with investments in Mainland China and Hong Kong would also be damaged severely, because their products would no longer be able to enter U.S. markets in great numbers as before. Even worse would be that the great damage that mutual discontinuation of MFN status would cause to Sino-U.S. political relations, would have an almost immeasurably negative impact on bilateral cooperative relations, and on multi-lateral cooperation on international issues.

Many of our U.S. friends have a very clear understanding of these serious consequences. Like us, they do not wish to see the good cooperative relations that have been established through many years of bilateral efforts be destroyed in one stroke. We are very appreciative of the great efforts put forth to extend China's MFN status in 1990 by our many friends in the U.S. Government, the U.S. Congress, and U.S. business circles. While we will face even more difficulties in retaining our MFN status in 1991, we will not only fight to have it extended, but will not accept any attached conditions. As China does not attach any conditions to the MFN status that we grant to the U.S., it would be unfair for the U.S. to unilaterally attach any conditions to ours. Moreover, extending our MFN status conditionally could only cast a cloud over Sino-U.S. foreign economic and trade relations, by bruising the confidence and dampening the enthusiasm of businessmen in both countries to engage in Sino-U.S. foreign economic relations and trade cooperation.

We hope that people from all walks of life in the U.S. will continue to see the big picture of Sino-U.S. relations, by taking more active steps to promote and safeguard our MFN status, in order to prevent Sino-U.S. relations from regressing.

## II. The U.S. Trade Deficit with China

The U.S. trade deficit with China has been attracting increasing attention recently. U.S. statistics show that the U.S. trade deficit with China was \$6.2 billion in 1989, had risen to \$10.4 billion in 1990, and is expected to reach \$15 billion in 1991.

But Chinese customs statistics show that we had exports of \$4.4 billion and imports of \$7.8 billion, for a Chinese

trade deficit with the U.S. of \$3.4 billion in 1989, and that we had exports of \$5.2 billion and imports of \$6.6 billion, for a Chinese trade deficit with the U.S. of \$1.4 billion in 1990.

The major cause of such a big difference in Chinese and U.S. statistics is the different way in which we classify the entrepot trade through Hong Kong of Chinese merchandise to the United States. China classifies it as Hong Kong exports, while the U.S. classifies it as Chinese imports. Hong Kong statistics show that Hong Kong's entrepot trade with the United States in Chinese products in 1990 was \$10.4 billion, of which about 70 percent, or roughly \$7 billion, were products manufactured with imported materials. In other words, they were products that certain Chinese enterprises, which depend on both foreign materials and markets, had manufactured with imported raw materials and then exported, and on which they had collected only a specified amount of work-payment fees. While this process of manufacturing with imported materials and then exporting has a certain positive impact on local economic development and employment, the Chinese side actually receives a very limited amount of foreign exchange from it, as the average work-payment fee generally amounts to only 7-8 percent of the product price. As China certainly does not acquire much of the foreign exchange that is earned in this process, and most of it is acquired by enterprises in Southeast Asia, Hong Kong, and Taiwan, it is irrational for the United States to classify all of the entrepot trade through Hong Kong of Chinese merchandise to them as Chinese imports. In addition, the different price and time classifications used by China and the United States are also a cause of this statistical inconsistency.

Of course, we must acknowledge that despite this great statistical inconsistency, our 1990 imports from the United States certainly declined by as much as 16 percent. At the same time, however, our imports from Japan and certain Western European countries also generally declined. The major reasons for this were our domestic economic adjustments, our tighter finance and credit, and the downward adjustment in the RMB [renminbi] exchange rate. Of course, another major reason was the U.S. Government's unilateral sanctions against China, through its restrictions on exports of advanced technology and its lack of financial support for U.S. enterprises to increase exports to China.

The Chinese Government is paying a lot of attention to increasing imports from the United States, on which it has no particular restrictions. In order to reverse the decline in our imports from the United States, China sent a huge purchasing group to there in 1990, which concluded contracts for \$700 million worth of imports from the United States. And we sent another one to the United States recently. China's markets are open to the United States, from which we will continue to import traditional staple commodities, such as grain, cotton, chemical fertilizer, lumber, aircraft, paper and pulp, technology, and equipment. Moreover, we welcome competitive participation by U.S. manufacturers and

business firms in technology import fields, such as petrochemicals, oil extraction equipment, and computers, as well as in public bidding on projects that we are undertaking with the use of World Bank loans.

Of course, the United States should also take corresponding steps to improve the environment and atmosphere for Sino-U.S. foreign economic relations and trade cooperation, by creating more favorable conditions for U.S. enterprises to expand cooperation with China. We believe that as long as both sides make a concerted effort, it will be possible to reverse the decline in our imports from the United States.

### III. Protection of U.S. Intellectual Property Rights

In both 1989 and 1990, the U.S. put China on its "priority list of nations to be watched" for not having provided full and effective protection for U.S. intellectual property rights. On 26 April 1991, the U.S. Trade Talks Delegation Office announced that it was again putting China on its "priority list of nations," and that it was going to take certain trade retaliation steps against China based on the U.S. "Special Law 301" and a six-month investigation and consultation.

This is extremely unfair of the U.S., and is also unacceptable to us. It is a well-known fact that since China began to reform and open up to the outside world in 1979, we have made considerable eye-catching progress in protecting intellectual property rights, which must be acknowledged even by responsible U.S. officials.

The Chinese Government has paid a great deal of attention to protecting intellectual property rights. In a short period of only a dozen years, we have published the PRC "Patent Law," "Trademark Law," and "Copyright Law" and, after examination and approval, had published the "Computer Software Protection Regulations" and the "Detailed Rules and Regulations on Copyright Law Enforcement" prior to 1 June 1991. We have also officially joined the "Paris Convention on the Protection of Industrial Property Rights, the "Madrid International Accord on Trademark Registration," and the "World Intellectual Property Rights Organization." In just a dozen years, we have basically formed a complete system of protection for intellectual property rights, a matter that took certain Western countries 100-200 years to accomplish.

Foreign countries have applied in China for over 30,000 patents, of which over 10,000 were U.S. applications, over 1,400 of which have been approved. Foreign countries have applied in China for over 30,000 trademark registrations, of which 12,000 were from the United States. Both patents and registered trademarks are legally protected in China. Of course, as China is a developing country, the extent to which we protect intellectual property rights cannot be completely divorced from our level of economic development. As we acknowledge that our laws on the protection of intellectual property rights are still imperfect in places, we are in the process of actively studying and preparing

to revise our "Patent Law," and are conscientiously studying the possibility of joining the "World Copyright Pact" and the "Bern Treaty on the Protection of Literary and Art Works."

In short, as China has taken a very active approach to the protection of intellectual property rights, and has made substantive progress in providing protections in recent years, the United States not only should not include China in its "priority list of nations," but should also eliminate China's name from its "priority list of nations to be watched." This would be the only fair, reasonable, and pragmatic approach.

In addition to these three major problems, Sino-U.S. foreign economic and trade relations also include others in areas such as textiles entrepot trade and anti-dumping. China is taking an active approach to enhance its control over domestic export enterprises, and is carrying out frequent consultations with the United States in an effort to solve these problems satisfactorily.

The Chinese Government has always paid a great deal of attention to developing cooperative relations with the United States, and highly values the bilateral successes that have been achieved. As there is basically no long-range clash of interests between China and the United States, no one would like to see our relations return to their mutually isolated state of the 1950's and 1960's. It is in keeping with the basic interests of the people of both countries to maintain good cooperative relations based on respect for each other's sovereignty, equality and mutual benefit, and noninterference in each other's internal affairs. It is hoped that people of vision from both China and the United States, who have devoted their efforts to safeguarding Sino-U.S. relations, will join hands in the great struggle to keep the relations between our countries from regressing.

### Impact of EC Integration on Textile Imports

92CE0030A Beijing GUOJI MAOYI [INTERTRADE]  
in Chinese No 7,27 Jul 91 pp 28-30

[Article by China Textile Export Corporation: "The European Common Market and China's European Textile Trade"]

[Text] The European Community is an important market for China's textile exports. China's textile exports to Europe have risen steadily in recent years. Statistics show exports of \$1,450,100,000, \$1,768,500,000, and \$1,770,110,000 for the years 1987 through 1989 respectively, representing 35.6, 36.4, and 36.25 percent of China's total trade with Europe for those years. The European Common Market's demand for textiles has been rather stable for a long time, its imports of cotton textile as a percentage of total demand exhibiting a trend toward continued increase. Potential for developing the European textile trade is very large. However, the EC intends to establish a large integrated

market at the end of 1992, which will pose both numerous problems and opportunities for China's textile export trade.

### Changes That the Integrated Market May Bring

Of the nearly 300 legal regulations that the EC has drawn up or will draw up, the following several will have a bearing on its foreign textile trade:

1. Elimination of the complex rules and regulations and onerous procedures in the border control system to allow free circulation of commodities. In this connection, the EC has made two legal reforms that will directly affect the movement of goods. One is the issuance of "a single EC administrative document" assuring the unimpeded movement in Europe of various kinds of goods. The other is the establishment of single flexible conveyance system that will completely abolish individual country transportation limitations for the development of a transportation service industry.

2. Integrated technical regulations and product standards. Back in the 1960's, the EC member states reached unanimous agreement on the issue of a single "broad European standard" for industrial products. Following the founding of the European Common Market, unified product standards will replace the present welter of individual country standards, and technical regulations in the product safety and consumer protection fields will also be integrated.

3. Unified EC quotas will replace the existing individual nation quotas. These quotas apply mostly to textiles and clothing. Overall quotas are mostly set through negotiation among major EC importing countries, and then a certain percentage is apportioned to each country. The EC employs a general preference system for the products of developing countries to reduce or exempt import quotas from duties, which are also apportioned among the EC member states. Following the abolition of boundaries between EC member states in 1992, the existing different quotas of individual countries will have to be integrated.

### Possible Effects of the Unified Market

Following its establishment, the European Common Market will encompass a 2.26 million square kilometer land area and 325 million consumers whose economic power will be close to that of the United States and far higher than that of Japan. Three major obstacles will also be abolished as follows: Visible obstacles (borders and customs), technical barriers (commodity standards), and financial barriers (taxes) for the free flow of commodities, personnel, capital, and labor. Nevertheless, the establishment of this large market itself means an expansion of trade barriers. Competition in the European market is bound to become more intense, posing a challenge for China. Thus, in terms of its effect on our textile trade, the establishment of the large market holds both advantages and disadvantages, and a mixture of joys and sorrows.

1. With the intensification of competition, difficulty in exporting to Europe will become greater. Integration of the European market will bring more market opportunities and consumers. The clothing industry, in particular, will become internationalized; however, entry into the Western European textile market poses several threats.

(1) The inhibiting effect on foreign trade of further development of the already high technology, highly efficiency Western European textile industry, and the increase in trade within the region.

(2) More intense competition for the European market as a result of the vigorous challenge from the textile industry in emerging eastern European and south Asian countries.

(3) The difficulties that unified technical standards and product standards pose.

(4) The European market's quality requirements will become stricter; quality competition will intensify; and advantage in price competition will no longer hold a dominant position.

(5) Increase in trade protectionism.

2. Effects of the abolition of border obstacles. The abolition of border controls and technical trade barriers will mean that the legally marketed products of a European EC member nation can circulate freely within the EC, circulating and competing more easily than products of a third country shipped to Europe. Border controls are a means by which member states impose quantity limitations on commodity imports, and they are mostly targeted against Multi-Fiber Arrangement [MFA] textile and clothing imports. The EC may turn member state quantity limitations into EC-wide quantity limitations. This will ultimately depend on the decision made about the fate of MFA in the Uruguayan round. The EC has proposed "gradually bringing textile trade procedures within the General Agreement on Tariffs and Trade [GATT]." The greatest feature of this proposal will be to tie the strengthening of the protection clauses of GATT to the removal of restrictions on the textile trade, and it will require developing countries to open up their markets simultaneously. This runs contrary to GATT principles, and we are directing a lot of attention to this. The fate of MFA and the establishment of a new textile trade pattern will have an extremely great influence on prospects for development of the European textile trade.

3. Effect of quota system changes. Dealing with a market that has a single quota is much easier than dealing with countries having 12 different quotas. However, since the level of development of each of the EC member states differs, differences in the quotas for each are very great so the unified quota poses substantial difficulties. The integration of these quotas may very well bring about a decline in the total quota figure, thereby leading to a rise in EC trade protectionism. This will seriously hurt China's European textile trade; thus, it merits an even higher degree of attention.

4. The effect of uniform product standards. The founding of a European unified trade barrier and the abolition of individual product standards for member states helps the export of products to Europe; it is no longer necessary to use 12 different sales methods as in the past. However, product standards following integration will be stricter; entry into the European market of China's textiles and clothing will be more difficult; and competition will be more intense.

#### Current Status of the European Textile Trade

From the time that they first entered the European market during the 1960's, Chinese textiles were regarded as class A products. They sold at high prices, brought high economic returns, and enjoyed a fine reputation in European markets. In recent years, however, a series of problems has appeared.

1. Decline in quality and greatly reduced reputation. In consequence of the shortage of raw materials, poor management, and poor workmanship, the quality of textile exports to Europe has declined seriously resulting in very great losses. In 1987 alone, for example, the EC filed 70 quality damage claims totaling \$1.3 million. The decline in product quality damaged customer confidence in the purchase of our goods, hurting our foreign trade reputation. Most of the quality problems were with cotton yarn, cotton cloth, T/C yarn, and T/C cloth, showing up particularly in uneven weave, discolored white cotton yarn, and broken warp and woof. Quality competition has become increasingly intense in the European market in recent years as European consumer's demand for quality has become higher and higher. Meanwhile, the quality of China's textiles has steadily declined. This will mean that the competitiveness of Chinese goods in European markets will grow increasingly weak.

2. Low grade causing difficulty in meeting European market demand. Most of the textiles that China exports to Europe are semi-finished goods whose added value is low. Furthermore, designs, sizes and colors offered are few; and styles do not keep up with trends. They are not in keeping with the premium quality, high quality new tide of high consumption in West Europe, and this has damaged development of the European textile trade to a certain extent. The Western European market's pattern of consumption has changed substantially since the 1950's and the 1960's. The percentage of daily necessities has declined while consumption of leisure time articles has increased. The textile market is near saturation. People are seeking novelty in color, style, and design, as well as upgrading, and updating. This means we must devote efforts to upgrading products.

Market competition intense; plummeting of price advantage. Economic growth in most of the EC countries is slow and the market is flat. Products that are low in price and of fairly good quality find favor in consumers' eyes. During recent years, the textile industry has developed

rapidly in Asia, Eastern Europe and some African countries. Their costs are lower than ours, and their prices are more competitive. As costs continue to rise in the domestic market, China's manufacturing costs go higher and higher, so the price advantage these products have enjoyed in the European market is on the wane.

#### Our Counteraction

The EC is the third largest market for China's textile exports. Any change in this market will have an affect on our textile trade. Thus, in dealing with these changes, we must solve the problems existing in our European textile trade, and seek attendant countermeasures.

First is greater market investigation and research, applying various ways and means to gain a prompt understanding of individual fields in the large market, particularly developments in the textile field in order to understand the kinds and quality of textiles that the European market needs so that China's products can steadily meet market requirements.

Second is the establishment of a coordinated mechanism for dealing centrally with Europe, using "integration" to counter "integration" so as to be able to solve promptly the problems that EC market integration causes for our development of the European textile trade. This will enable a change from a passive to an active posture and going on the offensive in a more active way.

Third is to seize opportunities for establishing sales outlets in Europe, mostly for the purpose of handle after-sale clothing disputes, investigating and studying the market, passing on information, and keeping abreast of popular trends. When conditions permit, consideration may be given to operating factories in West or East Europe as a means of getting around local market barriers, smoothing the way for the entry of Chinese textiles into the European market.

Fourth is better supervision and control to improve product quality, achieving dominance through quality. Once the European Common Market is integrated, product quality requirements and product standards will be more stringent. We need to find the fundamental reasons giving rise to the present quality problems, improve our quality consciousness, and exercise better quality control. We must adopt quality standards and technological processes that meet their market demand, ensuring product quality every step of the way from production to getting the products into circulation, China's textiles thereby occupying an unassailable position in the large integrated European Common Market.

**Trade Negotiations With USSR, East Europe**  
*91CE0708A Hong Kong LIAOWANG OVERSEAS*  
*EDITION in Chinese No 28, 15 Jul 91 pp 34-35*

[Article by Liu Kuang-chun (0491 1639 6511): "Summary of 1991 Chinese-Soviet Union, East European Countries Trade Fair"]



[Text] In June, Harbin seems to be brocaded with flowers. The ten day Chinese-Soviet Union, East European Countries Trade Fair also enhanced Harbin's lively summer atmosphere.

During the fair, 128 foreign trade enterprises from throughout the country's 30 provinces, autonomous regions, and municipalities held friendly, mutually beneficial consultations with more than 5,000 Soviet and East European business and trade people and concluded agreements amounting to nearly US\$2.7 billion. US\$100 million of this was for cash import and export commodity agreements, US\$1.9 billion was for barter commodity agreements, and US\$680 million was for economic and technology cooperation projects.

Lu Jinjiang [4151 6930 3068], the fair's press spokesman, said, "The fair was an exceptionally grand occasion and extremely fruitful, revealing the tremendous potential of China's economic and trade relations with the Soviet Union and East European countries."

#### **Cash Transactions Are the Direction of the Future**

The 1991 Chinese-Soviet Union, East European Countries Trade Fair opened under new circumstances of continuous development of Sino-Soviet relations.

For a long time, Sino-Soviet trade has mainly been barter trade negotiated between the two governments. Last May in Moscow, Chinese and Soviet leaders negotiated a change in the two countries' trade accounting to spot exchange payment beginning from 1 January of this year, to deal in accordance with international practice.

The fair gave practical proof that for Sino-Soviet trade to finally enter the unified world market it is inevitable that payment be in cash. But a transition from barter trade to spot exchange trade is required. In this transition period, there are both spot exchange trade and barter trade, supplementing and complementing one another. Only when they are driven by the two wheels can they reach the final goal of the unified international market.

At the fair, Soviet First Deputy Minister for Foreign Economic Relations Kachanov said, "The Soviet Government actively encourages enterprises to conduct spot exchange trade and increase the proportion of foreign exchange that the enterprise retains. So, I am optimistic about the transactions."

Although only US\$100 million of the transactions at this fair were cash transactions, they had a much broader effect and manifested a considerable vitality. Of the more than 2,000 Soviet clients at the fair, more than 600 did business with spot exchange. Moscow's All-Union Science and Technology Center's scientific production alliance, "Ai-er-kang" [5337 1422 1660] Company, signed a cash agreement with China's National Electronic Import and Export Corporation to purchase computers valued at US\$1.8 million. An official of this

company said, "We very much need Chinese computers and using cash to pay for them not only makes it convenient to settle accounts, but also ensures prompt delivery."

Chinese business groups negotiate flexibly. Where they can use cash, they use cash and where they can use barter trade, they use barter trade.

At this fair, Sino-Soviet barter trade transactions reached US\$1.9 billion, an increase of US\$700 million over last year's fair, showing that Chinese and Soviet product mixes are very complementary and barter trade will continue to develop from here on. Based on the import-export commodity agreements signed at this fair, the principal import commodities are chemical fertilizer, oil products, steel, lumber, plywood, paper pulp, cotton, synthetic rubber, industrial chemicals, and machinery and electrical equipment. The principal export commodities are corn, shelled peanuts, frozen pork, frozen beef, sugar, canned food, tea, cotton cloth, silks and satins, knit goods, down products, leather products, sports shoes, computers, television receivers, cranes, tractors, shaft bearings, and tires.

#### **Prospects for Technical Cooperation Look Good**

At this fair, economic and technological cooperation exceeded anyone's expectations.

On the morning that the fair opened, the first agreement—a construction contract with a total construction value of 182 million Swiss francs—was formally signed in the exhibit hall of the Economic and Technological Cooperation and Trade Group.

Although this was the first time that the Economic and Technological Cooperation and Trade Group had participated in the fair, the negotiators who came were extremely enthusiastic. Zhang Wencheng [1728 2429 2052], the head of the group, said, "Chinese and Soviet complementarity is not only reflected in the product mix, the labor, technological, and industrial structure also are complementary. The Soviet Union, from the end of this century to the beginning of the next century, plans to take US\$200 billion and concentrate it on the development of the Far East and Siberia. This region is vast and rich in resources, but it lacks funds, technology, and a labor force. It is very much in need of Chinese cooperation. So one direction of Sino-Soviet economic and trade development will be economic and technological cooperation."

More than 60 percent of the economic and technological cooperation agreements signed at the fair were for largely developmental, high-grade technology construction projects. For example, Heilongjiang's Eastern International Economic and Technological Cooperation Company signed the first batch of developmental contracts with the Soviet "A-er-ke-xi-mu" [7093 1422 0344 6007 1191] Company for the Nakhodka Free Economic Region with a total value of 434 million Swiss francs and including thirteen construction contracts for such things



as a hotel, an office building, a small residential district, recreational facilities, and a factory. Within this the Nakhodka International Trade Building, with an area of 88,000 square meters and a construction cost of 130 million Swiss francs, is a high-rise building on a par with a four star hotel.

In addition to the export of a large batch of workers indirectly included in construction contracts, deals were made at the fair for the export of more than 7,000 workers spread over more than ten areas such as agricultural cultivation, cutting forests, and processing of construction materials.

One characteristic that made this fair different from previous fairs was the enthusiasm for beginning to establish joint venture enterprises with Soviet and East European businesses. They were not satisfied with only importing light industry products from China, but they hoped to introduce Chinese technology and equipment, and develop their own industry. Most of the joint ventures signed at the fair were concentrated in such industries as textiles, clothing, shoes and hats, and household electrical appliances.

Economic and technological cooperation also is a direction in which Chinese and Soviet local governments are striving. During the fair, one after another, government delegations from oblasts and kray of fourteen Soviet republics of the Union visited Harbin and concluded several large economic and technological cooperation agreements with the provincial and city governments in Harbin. For example, the Soviet Armur Oblast concluded a strong agreement with China's Heilongjiang Province to establish a joint venture enterprise and a cooperative production organization for cooperation in such areas as updating enterprise technology, technology transfer, processing of materials supplied by foreign businesses, processing according to buyers' samples, and assembling parts supplied by clients.

#### Partnerships as a Basis for Trade

Although this was a very fruitful fair, business groups from more than ten Chinese provinces and cities "came away empty handed."

People in trade circles think that this was because it was the first time that these business groups participated in the fair and they were not sufficiently prepared and their products did not meet the customers' needs and could not attract customers. Some were accustomed to spot exchange trade with Western countries and were not familiar with barter trade. Some planned to do a big business before they had established a basis of mutual trust and were impatient for success. As a result, haste makes waste. For them the important thing is not the number of deals made, but in getting to know the customers, becoming familiar with the situation, and opening trade channels in order to establish firm trade relations.

Huang Yuemao [7806 1471 5399] of the Shantou Special Economic Zone Materials Import and Export Corporation understood this point quite thoroughly. He said, "Initiating trade with the Soviets is a brand new thing for those of us from southern provinces and cities. Although our business transaction were not very noteworthy when we participated in the fair last year, through broader contacts with Soviet clients, we made a number of friends. After the fair, over a period of time, we invited eight Soviet trade delegations to visit the Shantou Special Economic Zone and ended up making several big deals. We believe that the key to opening the Soviet and East European markets is to establish a firm trading partnership."

Heilongjiang Province made the largest amount of deals at this fair, US\$1.3 billion. An authoritative source in Heilongjiang Province believes that their yield was so good because they established partnerships with more than 1,000 Soviet enterprises through longtime associations with the Soviets. So that all the enterprises that participated in the fair could have a return, Heilongjiang Province proposed the slogan "Heilongjiang builds the stage, the whole nation sings the opera," and asked the enterprises from its province to adopt a general perspective and to introduce the clients that they had invited to southern enterprises. Heihe city's Border Trade Company introduced more than 100 Soviet partners with whom they were associated to foreign trade enterprises from such places as Guangdong, Guangxi, and Sichuan so that they could sign more than 50 understandings with Soviet and East European clients.

#### Impact of Industrial Policy Foreign Investment

91CE0734A Beijing CAIMAO JINGJI [FINANCE AND TRADE ECONOMICS] in Chinese  
No 7, 11 Jul 91 pp 18-21, 17

[Article by Li Xiaoxi (2621 2556 6007), affiliated with the Chinese Academy of Social Sciences' (CASS) Task Force on "Analyzing Foreign Investment Prospects for the Eighth Five-Year Plan (1991-1995)"; Editor: An Xiaofeng (1344 2556 2800): "Foreign Investment and Industrial Policy"]

[Text] Keeping our foreign investment orientation in line with our industrial policy is a guiding principle for our task of attracting foreign investment in the next five or 10 years. While such an orientation is absolutely correct as far as China's need for foreign investment to develop our economy is concerned, we must not lose sight of the many difficulties and issues that need to be discussed theoretically in order to achieve it. An inability to deal well with the relations between foreign investment and industrial policy would certainly have a great impact on our task of attracting foreign investment for the Eighth Five-Year Plan.

### **I. The Specific Tasks Involved and Problems That May Arise in "Keeping Our Foreign Investment Orientation in Line With Our Industrial Policy"**

Having studied the Eighth Five-Year Plan Program and relevant industrial policy documents, we think that keeping our foreign investment orientation in line with our industrial policy will involve the following tasks: (1) Indirect foreign investments, such as international bank and bilateral government loans, should be focused on intensified construction of projects in fields, such as farming, forestry, irrigation, power, transportation, communications, vital raw materials, and environmental protection. (2) Direct investments should be invested in export-earning and high-tech enterprises, be guided and oriented toward certain large- and medium-sized basic industrial and infrastructure projects, and be used to upgrade the technology of China's enterprises. (3) SEZ's [Special Economic Zones] and open cities and zones should attract and use foreign investment in line with both our industrial policy orientation and bringing their local advantages into full play, in order to develop externally oriented economies.

As far as these three tasks are concerned, we think that the first one will be relatively easy to accomplish. As long as we can acquire international bank and foreign government loans, our government's planning, banking, and industrial sectors will be able to invest this foreign capital in projects required by our industrial policy. This was exactly the way that certain large- and medium-sized key projects acquired foreign capital, and it was precisely the completion and putting into operation of a number of such key projects with the help of foreign investment that has increased China's economic strength in recent years. Accomplishing our second foreign investment task will involve the following problems: (1) Certain difficulties are being encountered in guiding foreign investors toward export-earning enterprises. The major one is that while the aim of some foreign investors is to gain domestic Chinese market share, we are demanding that their products be mostly for export. There is a sizeable gap between the aims of Chinese and foreigners in striving for foreign exchange balance. An investigation by the Foreign Investment Administration (FIA) of the Ministry of Foreign Economic Relations and Trade (MOFERT) found that only 17 percent of our over 4,000 three kinds of foreign trade enterprises are export enterprises. Statistics show that foreign-invested enterprises export far less of their products than was originally planned, and earn less than 20 percent of their sales income from exports, which is far less than stipulated by contract, and shows that they are mostly "internally oriented"; (2) Certain difficulties are also being encountered in guiding foreign investment toward high-tech enterprises. The facts show that most of our foreign investors have small or medium amounts of capital and control little advanced technology. The investigation by MOFERT's FIA found that high-tech enterprises account for only 6 percent of our over 4,000 three kinds of foreign trade enterprises. Moreover, importing advanced technology is not an easy matter for either side

that is engaged in direct cooperation. On one hand, our assimilation and manufacturing capabilities are poor and, on the other, foreign investors are unwilling to accept long-term responsibility for technology transfers. (3) Even greater difficulties are being encountered in guiding foreign investment toward large- and medium-sized basic industrial and infrastructure projects. We know that as China practices planned management of most basic industrial goods, our basic industries earn lower profits and are even losing propositions. Whereas our infrastructure projects earn even lower profits, because they emphasize social benefits over economic efficiency, and require larger investments with longer recovery periods. Thus, even greater difficulties are being encountered in inducing foreign businessmen to invest in such unprofitable industries. In addition, difficulties are also being encountered when inducing foreign businessmen to invest in upgrading the technology of certain ageing enterprises. Aging enterprises have heavier burdens, earn lower profits, and are less attractive to foreign investors than new ones. As to importing technology alone, while it is relatively easy for ageing enterprises to purchase technology with foreign exchange, this is not foreign investment. And while certain aging enterprises have attracted foreign investors and cooperated successfully, this is fairly hard for most aging enterprises to accomplish.

Our industrial policy in SEZ's and EDZ's is a little more flexible. As this leaves foreign investors with less restrictions and more preferences, they experience less problems.

### **II. The Consistencies and Conflicts Between Industrial Policy and Spontaneous Market Orientation in Guiding Foreign Investment**

We must now further analyze the abovementioned problems. We think that these problems reflect the conflicts between industrial policy and spontaneous market orientation in guiding foreign investment. The major aim of foreign investors is profits which, if they cannot earn, they will not invest. As this is the nature of capital, there is no use in finding too much fault with it. In order to achieve this basic aim of earning profits, foreign investors must strive to gain market share by competing with their opponents. While they can temporarily sustain losses within certain limits, profits—whether short or long-term—are always their first concern. The key indicator of profitability in the project feasibility studies conducted by foreign investors is the cost-profit analysis. In order to maximize profits, foreign investors must be guided by market forces, and must size up the supply and demand situation, when making investment decisions. We must understand and acknowledge this. In other words, we must acknowledge that market-oriented investment decisionmaking by foreign investors is rational investment behavior. However, we also think that our industrial policy is basically rational, because it is based on China's actual economic development needs. The exact source of the difficulties that we are now

encountering is that while these two investment orientations are both rational, they are also conflicting. The major conflict is that we want profit-oriented foreign businessmen to invest in unprofitable industries.

The following train of thought has led to this conflict. On one hand, we want foreign investment aims to include either more nonprofitmaking ones, or profitmaking ones that are not so immediate or short-sighted. In other words, we are striving to attract certain foreign investors who are certainly not interested in simply coming to China to make quick profits and then leave with them. This should be possible. On the other hand, we are interested in the possibility of turning certain unprofitable but urgently needed projects into profitable ones. This should also be possible to accomplish in a step-by-step way. Our analysis of this continues below.

### III. Foreign Investment Makeup and Industrial Policy

In order to find ways to resolve this conflict, we think that the relations between our foreign investment makeup and our industrial policy should be analyzed in more depth. We have noticed a particularly prominent feature of the makeup of our foreign investment sources, i.e., that Hong Kong, Macao, and Taiwanese capital makes up a very large percentage of our foreign investment. During the Seventh Five-Year Plan, we attracted direct investments in 17,000 projects from, and reached foreign investment agreements worth \$16 billion with, the Hong Kong-Macao region, which figures accounted for 75 percent and 60 percent, respectively, of our directly foreign-invested projects and foreign investment agreements during that time. Taiwanese investment has increased very quickly in the last four years, reaching over 1,800 projects with agreed investments of \$1.6 billion by the end of 1990, which makes Taiwanese investment in Mainland China second only to that from the Hong Kong-Macao region. We think that in comparison to ordinary foreign investors, the Mainland China investment aims of Hong Kong, Macao, and Taiwanese investors plus overseas Chinese investors from various countries (temporarily abbreviated as Chinese investors), include certain nonprofitmaking aims in addition to the major one of making money. This is the result of factors, such as Chinese culture. In particular, certain well-known manufacturers and business firms from these places feel a considerable amount of patriotism in exerting themselves for their ancestral homeland. This is precisely the source of the misunderstanding among certain Japanese businessmen over the large numbers of Hong Kong and Taiwanese businessmen that have come to Mainland China in the last two years. We think that in light of the international capital market slump, the sharpening foreign investment competition among developing and even moderately developed countries, and China's still quite poor investment climate, this flood of Chinese investors per se reflects a certain amount of noneconomic concerns. In light of the many adverse changes in China's foreign investment supply and demand standing in international capital markets in the 1990's, it is going to be even more necessary for us to

concentrate our efforts on attracting Chinese investors. This will also be a key area in which we can partially resolve the conflicts between our industrial policy and market orientation in guiding foreign investment.

Another distinction in the makeup of our foreign investment sources is that between direct and indirect foreign investment. We should use different industrial policies to guide these two categories of foreign investment. We think that our industrial policy should be directed more toward indirect foreign investment. As we have already stated above that, in practice, indirect foreign investment certainly is mostly in line with our industrial policy orientation, why should we be able to do a better job in this area? This is because most indirect foreign investment involves large, longer-term, and lower-interest intergovernmental loans, in which governments are the direct lenders, borrowers, or guarantors. In short, as governmental intentions are more readily expressed in this area, indirect investments are more easily governed and controlled. Moreover, indirect investment accounts for most of our foreign investment. During the Seventh Five-Year Plan, China actually used \$30 billion of such foreign loans, or 65 percent of our whole foreign investment during that time. In addition, 80 percent of the funds that China spends for key technology imports come from foreign government loans. In other words, as our technology imports rely mainly on indirect foreign investment, making our industrial policy play a guiding role in indirect investment would reflect the principle of good overall planning and control. Of course, as a sizeable percentage of our indirect investment is commercial loans, our orientation of commercial loans should be different from that of preferential intergovernmental or international bank loans. As we must consider the repayment pressure of high-interest, short-term commercial loans, we should concentrate our efforts on combining profitmaking market orientation with policy-planned guidance.

As to direct foreign investment, we must proceed from actual conditions, i.e., proceed from our industrial policy needs, while respecting the market-oriented investment options of foreign investors. In this area, our industrial policy should guide and recommend. We think that room exists for both investment orientations. In other words, our investment orientation should be based on our needs, while making it possible to obtain the most ideal investment-profit margins. We think that this room to coexist could be expanded through bilateral understanding, consultation, and appropriate compromise. Even in a particular industry, there is still considerable room for choice among thousands of products. The product categories with state-set prices that were announced in 1986 included only a little over 30 agricultural products, 60 light industrial goods, and slightly more than 300 heavy industrial goods, in addition to which there is a vast field of operation as regards variety. As long as market and product control analyses are conducted conscientiously, there will be many varieties of products that are both in line with industrial policy and also profitable.

Dealing well with the current makeup of our foreign investment orientation will also give us a certain amount of help in understanding the relations between foreign investment and industrial policy. While our foreign investment agreements on production-type projects during the Seventh Five-Year Plan amounted to \$40 billion, or 64 percent of the amount of all such agreements, this figure had reached 77 percent by 1990, which shows that our foreign investment orientation is generally rational. It is also basically rational as far as the distribution of foreign-invested projects is concerned. During the Seventh Five-Year Plan, foreign businessmen invested directly in 19,500 industrial projects, accounting for 86 percent of our foreign-invested projects, mainly in fields, such as electronics, communications, chemistry, textiles, and machinery, 800 agricultural projects, or 4 percent of the total, and 1,800 tertiary industries, or 10 percent of the total, mainly in fields, such as transportation, post and telecommunications, real estate, banking, commerce, tourism, residential service trades, and scientific and educational literature. While foreign businessmen have been investing too little in the infrastructures needed by our basic industries, it is not necessary to blame them too much. For instance, while many people are criticizing foreign businessmen for investing too much in restaurants and hotels, such criticism from us is actually unnecessary. As foreign businessmen are well aware that the whole tourist trade is now suffering losses, they will naturally realize that they have overinvested in this field. While this can be explained by market forces rather than industrial policy, it was due on the other hand to the need to adapt to our early opening up to the outside world, by building restaurants and hotels to meet the needs of the large numbers of foreign visitors that would be pouring into Mainland China. Moreover, it was also partially due to the investment climate for foreign businessmen under such exceptional conditions. Many foreign-invested enterprises began precisely by setting up their offices in hotels. If we had used foreign loans to build hotels, the situation might have been even worse. But the state certainly does not have to accept the responsibility for these losses that are now being sustained by the restaurants and hotels that were built by foreign businessmen, because it was their own decision to build them. In short, we think that it is quite right to regard direct investment by foreign businessmen as a supplement to the current stage of China's economy. That is, we must neither place too much hope on direct investment to develop basic industries for our national economy, nor need we over-criticize it for not having become the mainstay of our national development.

#### **IV. An Analysis of the Necessary Conditions for Guiding Foreign Investment With Industrial Policy**

The following conditions will be needed to guide foreign investment with industrial policy toward basic industries and infrastructures: (1) The pricing and management systems of key projects and basic industries need to be further reformed. Aging enterprises need to attract foreign investment in advanced technology for upgrading,

and also need to reform their enterprise management. This is actually a matter of making investment profitable, because only reform can enable these industries to achieve socially accepted average profit margins. (2) The concentration of a certain number of foreign investors will spur foreign investment in basic industries and infrastructures, which has been proved by the experience of Guangdong Province. This is because once the three kinds of foreign trade enterprises have spread out to a certain extent over a whole area from one point, they will have more need for their own infrastructures and, once they begin making profits, they will begin to think about preserving and expanding their profitmaking momentum. On the other hand, as it is easier to promote fee collection according to international practice on investments in basic industries and infrastructures in areas where the three kinds of foreign trade enterprises are concentrated, foreign businessmen can earn profits from such investments. This shows that foreign investment develops in stages. (3) A key condition for foreign investment in basic industries and infrastructures is that the state must maintain basically stable political and economic development. It is well known that investments in basic industries and infrastructures require longer-term investment decisionmaking and investors to take greater risks, and that political and macroeconomic instability are investors' greatest fears. As such risks are usually impossible to offset, and scare investors even more than business risks, we have come to the conclusion that stability is a condition for foreign investment. (4) Advanced technology imports can, to a great extent, attract investment in China by transnational corporations. While transnational corporations have rich financial resources, very strong R&D teams, and usually new and advanced technology, as they search for investment arenas throughout the world, and make quite high demands in regards to investment climate, we must make greater efforts to improve ours. The foreign-invested projects that we attracted during the Seventh Five-Year Plan were still quite small in size, with investment agreements averaging less than \$3 million per project. And such investments averaged even less than \$2 million per project by 1990. Many small projects are not very helpful in importing advanced technology, which is an overall investment climate demand of foreign businessmen. (5) A key condition for realizing the role of industrial policy in guiding foreign investment is rational Central-local relations. Only when Central policies are genuinely supported locally can the impact of industrial policy on foreign investment be brought into full play. Central and local interests are sometimes inconsistent in our current industrial policy stipulations, with localities refusing to restrict or prohibit as required by industrial policy, doing everything they can to get around relevant Central stipulations, and pigeonholing industrial policy. (6) The realization of industrial policy guidance of direct foreign investment must be linked to the particular stage of China's economic development. As China's economy is rather backward, many of our social services and business conditions are unable to

meet the needs of highly socialized large-scale production. Under such conditions, we must not place too high hopes on foreign investors. For instance, take the Baogang Iron and Steel Corporation. While this is an exceptionally large basic industrial project in our economic development, which normally should be able to expand greatly, the "triangular debt" problem has left Baogang with a "large loss of blood," in which all normal operations have become problematic. As all of our own key industries and enterprises are experiencing such operating difficulties, how can we expect foreign investors to be very keen about our industrial policy? While this is also a matter of the stage of our foreign investment climate, in a broader sense, it is a matter of the stage of China's economic development.

#### **V. Furthering Reform Will Be the Key Way To Resolve the Conflicts Between Industrial Policy and Market Orientation in Guiding Foreign Investment.**

Furthering economic reform will be a key way to resolve the conflicts between industrial policy and market orientation in guiding foreign investment as follows: (1) Furthering reform is a process of constant improvement and perfection of our industrial policy per se. First, we realize that certain provisions of our industrial policy are irrational. For instance, our current industrial policy is characterized by quite strong directives, but should become more characterized by guidance as reform advances. Second, our industrial policy contains certain provisions that are too particular. This presents foreign businessmen with the problem of who will accept the responsibility if they sustain losses (policy losses, not management losses) due to investing according to our industrial policy. While the state provides a certain amount of subsidies to state-owned enterprises that experience such problems, it obviously cannot shoulder the burden of subsidizing foreign-invested enterprises. Third, our industrial policy limits foreign investment in certain high-profit sectors, which is not completely reasonable. For instance, while it contains certain commercial and leasing provisions, profitmaking in these fields is a variable of market supply and demand fluctuation. Leasing has been a losing proposition since 1990. Exchange rate adjustments plus "triangular debt" have left leaseholders unable to pay their rents, which has caused losses. We should be able to reach a consensus should be able to be reached on these problems through reform. (2) Furthering reform will help to turn certain basic industries from losing propositions into profitable industries. As basic industrial goods are in short supply, their prices should be slightly higher instead of slightly lower. State price-fixing is a major cause of the supply shortages and too low prices of basic industrial goods. On the other hand, making the prices of urgently needed basic industrial goods rational would greatly reduce the conflicts between industrial policy and market forces in guiding investments, by helping to induce foreign businessmen to invest in basic industries. (3) Furthering reform will help to further improve our investment climate for foreign businessmen. We know that while preferential policies play a definite role in attracting

foreign investment, it is a limited one, because only if foreign investors earn money can they enjoy the tax preferences of "two exemptions and three reductions." Moreover, the most important factor in profitability is a good or normal business environment. Foreign businessmen prefer a business environment that is market-oriented according to international practice. In particular, foreign businessmen are accustomed to being able to acquire all of the money, raw materials, and manpower that they need through, and being able to freely sell their goods on, markets. We are in the process of realizing such business conditions through step-by-step economic reform. In short, advancing reform will reduce the conflicts between industrial policy and market orientation in guiding foreign investment, by coordinating to a certain extent our industrial policy with the operation of market forces.

#### **VI. Foreign Investment, Industrial Policy, and the Uruguay Round of GATT Negotiations**

In discussing the impact of industrial policy on foreign investment, an extremely important international matter that we must not overlook is the Uruguay Round of GATT negotiations on multilateral trade agreements between developing and developed countries. A prominent feature of these negotiations is that they link trade to capital. Developed countries have challenged the many restrictions put on foreign investment by developing countries, feeling that the various steps taken by developing countries in regards to foreign investment have restricted and distorted trade relations. This refers mainly to demands in areas, such as product exports, local product composition, foreign exchange balance, and restrictive policies on products for domestic markets or export, including certain industrial policy demands put on foreign investment by developing countries. While these negotiations were broken off early in 1991, they have now resumed again. We think that while this round of negotiations will have a great impact on the economic development of developing countries, so that efforts should be made to acquire provisions that are favorable to developing countries, there is also a need on the other hand for developing countries to further study their own protectionist policies, including certain industrial policies that involve trade. While our demands are rational that developed countries must acknowledge that, since we do not now have the strength to compete with them on equal terms, they should give us certain preferences, this also involves the need for us to strive to change the situation. From a long-range perspective, protectionist means will not necessarily achieve protectionist ends. We must establish a competitive foreign investment mentality, and an entrepreneurial spirit of using management success to protect our national industry, instead of always depending on government policy.

We believe that in the course of thoroughly implementing the Eighth Five-Year Plan Program, we will be able to solve our foreign investment problems step by

step, and achieve a rational orientation in the relations between our industrial policy and foreign investment.

### Figures Released on July Exports to EEC Countries

HK0309124991 Beijing CEI Database in English  
3 Sep 91

[Text] Beijing (CEI)—Following is a list showing the value of China's exports to EEC Countries in July 1991, released by the General Administration of Customs:

(Unit: 10,000 U.S. Dollars)		
Country	July 1991 Exports	July 1990 Exports
EEC	60,222	46,510
Belgium	3,452	2,210
Denmark	1,924	990
Britain	5,600	6,083
Fgr	21,531	15,578
France	8,622	4,621
Ireland	110	108
Italy	7,436	6,563
Luxembourg	0	1
The Netherlands	8,919	7,681
Greece	601	610
Portugal	237	492
Spain	1,789	1,571

### Exports to Asian Countries in July

HK0309124691 Beijing CEI Database in English  
3 Sep 91

[Text] Beijing (CEI)—Following is a list showing the value of China's export to Asian countries and regions in July 1991, released by the General Administration of Customs:

(Unit: 10,000 U.S. Dollars)		
Countries, Regions	July 1991 Exports	July 1990 Exports
Hong Kong	275,849	234,200
Macao	3,832	4,820
Taiwan	5,631	2,282
Japan	81,126	66,982
Asean Nations	45,438	29,561
Indonesia	4,774	2,517
Malaysia	5,305	2,249
The Philippines	2,871	1,825
Singapore	19,389	15,828
Thailand	13,012	7,081
Brunei	87	61
Bahrain	96	62

Bangladesh	1,726	1,918
Burma	1,300	1,336
Korea	3,633	2,312
India	1,179	986
Iran	7,902	1,486
Iraq	0	115
Kuwait	20	1,020
Nepal	275	281
Oman	41	57
Pakistan	6,109	5,730
Qatar	43	50
Saudi Arabia	2,849	3,086
South Korea	22,730	8,582
Sri Lanka	876	787
Turkey	590	439
The United Arab Emirates	4,157	1,499

### Foreign Trade Continues Increase

OW0909083091 Beijing XINHUA in English  
0804 GMT 9 Sep 91

[Text] Beijing, September 9 (XINHUA)—China's imports and exports in August reached 12.08 billion U.S. dollars, up 19.3 percent over last year's same period, according to the data released by the Chinese Customs today.

The value of exports in August exceeded 6.48 billion U.S. dollars, up 17.2 percent, while imports reached 5.6 billion U.S. dollars, up 21.9 percent over last year's like period.

Cash based exports stood at 5.2 billion U.S. dollars, while imports stood at 4.04 billion U.S. dollars.

Last month, China received donated goods valued at over 15 million U.S. dollars from international organizations, foreign governments and organizations. In addition, donated materials valued at 19.76 million U.S. dollars were received from compatriots in Hong Kong, Macao and Taiwan, overseas Chinese and foreign citizens of Chinese origin.

### Tianjin Hosts Soviet Trade Exhibit

OW1809220691 Beijing XINHUA in English  
1430 GMT 18 Sep 91

[Text] Tianjin, September 18 (XINHUA)—The 1991 Soviet trade information exhibition opened here today.

Ten large-scale enterprises from the Soviet Union showed product samples and related data at the exhibition. Trade and cooperative agreement discussions will also be held.

The exhibition is organized by the Soviet Union Trade Representative Office in China and sponsored by the Soviet Union Foreign Trade Advertisement Agency. It will end on September 20.

### Motorcycle Exporters Seek Larger Market

HK0209044591 Beijing CHINA DAILY in English  
2 Sep 91 p 2

[By staff reporter Chang Weimin: "Motor Bike Makers in Sales Drive"]

[Text] Chinese motor cycle exporters are to strengthen the ties between them and co-ordinate their activities in a bid to take a larger share of the world market.

A national export strategy group was established at a recent conference and an official with the organization said measures would soon be taken to step up exports.

The policy group, which links 22 large plants and companies, will do market research and consult members on prices of motor cycles for export.

A draft scale of prices is expected in October and final decisions will be made early next year.

After that, no exporters should sell motor cycles abroad at less than the set price, the official said.

Prices would be adjusted from time to time, in accordance with changes in production costs and fluctuations on the world market.

Consultation on prices was important, he said. "It allows us to take into consideration the interests of all enterprises instead of individual ones."

Officials from the industry agreed that the new body will bring some order to China's motor cycle export business and promote co-operation and trade with overseas firms.

Overseas companies are welcome to make business contacts with the new body, the official said.

China's motor cycle industry has developed rapidly over the past decade and now has the capacity to turn out 1.3 million machines a year.

Many companies produce motor cycle for export.

Between 1986 and last year, exports totalled 190,000, earning more than \$106 million of foreign currency.

Last year, 43,400 moto cycles, of 24 different types made by 17 factories, were exported to 29 countries and regions. Some \$31 million was earned.

In the first six months of this year, exports increased to 24,300 motor cycles, earning some \$17.4 million.

Exports for the whole year were planned to increase by 12 to 15 per cent over last year's figure and foreign exchange earnings are expected to reach \$35 million.

This growth rate is also expected to be maintained for the following four years.

That means that by the year 1995, exports should reach 100,000 to 120,000 motor cycles and foreign exchange earnings \$70 million.

The industry expects that 12 to 15 manufacturing plants and up to 10 component producers will have secured stable shares of the world market by then.

The official said that the co-ordinating group also planned to help improve after-sales services in the countries and regions where Chinese-made motor cycles were sold.

Chinese companies now have a dozen service centres abroad. The official said more service centres are to be set up and existing ones strengthened.

Chinese-made motor cycles used to be sold only in developing countries, but now they have entered markets in North America and Europe.

The official admitted that Chinese motor cycle exporters will have to improve product quality to establish a better reputation in the world market.

## ECONOMIC ZONES

### 1st Half Export Products Output in Coastal Cities

HK0609143191 Beijing CEI Database in English  
6 Sep 91

[Text] Beijing (CEI)—Following is a list showing the output value of export products registered in China's coastal open cities (COC) and Special Economic Zones (SEZ) from January to June, 1991, released by the State Statistical Bureau:

City	(Unit: 10,000 RMB Yuan)		
	1-6/91	1-6/90	UP
(PC) Total	4,620,777	3,996,548	15.6
COC Total	3,388,962	3,116,993	8.7
Dalian	272,263	197,929	37.6
Qinhuangdao	19,493	15,374	26.8
Tianjin	294,043	334,721	-12.2
Yantai	126,333	122,528	3.1
Weihai	92,209	84,217	9.5
Qingdao	226,171	220,707	2.5
Lianyungang	23,970	18,551	29.2
Nantong	231,417	195,703	18.2
Shanghai	1,193,400	1,170,800	1.9
Ningbo	177,819	146,323	21.5
Wenzhou	40,351	34,283	17.7
Fuzhou	162,711	119,279	36.4
Guangzhou	478,750	407,156	17.6

(Unit: 10,000 RMB Yuan)			
City	1-6/91	1-6/90	UP
Zhanjiang	38,548	38,640	-0.2
Beihai	11,484	10,782	6.5
SEZ Total	1,219,574	869,378	40.3
Shenzhen	644,480	487,903	32.1
Zhuhai	192,178	83,417	130.4
Shantou	196,468	131,572	49.3
Xiamen	186,448	166,486	12.0
Hainan	12,241	10,177	20.3

Note: The output value is based on 1990's constant value.

### Coastal Foreign Firms 1st Half Output

HK0609142091 Beijing CEI Database in English  
6 Sep 91

[Text] Beijing CEI—Following is a list showing the output value registered by foreign-invested enterprises in China's coastal open cities (COC) and special economic zones (SEZ) from January to June, 1991, released by the State Statistical Bureau:

(Unit: 10,000 RMB yuan)			
City	1-6/91	1-6/90	up
(pc) total	2,363,096	1,550,083	52.4
COC total	974,746	635,691	53.3
Dalian	48,037	29,056	65.3
Qinhuangdao	10,076	4,745	112.3
Tianjin	109,288	84,059	30.0
Yantai	6,941	4,997	38.9
Weihai	13,850	10,162	36.3
Qingdao	22,813	10,239	122.8
Lianyungang	10,243	7,888	29.9
Nantong	0	0	0
Shanghai	0	0	0
Ningbo	81,647	33,210	145.9
Wenzhou	0	0	0
Fuzhou	208,378	152,300	36.8
Guangzhou	436,560	281,144	55.3
Zhanjiang	23,314	15,777	47.8
Beihai	3,599	2,114	70.2
Seztototal	1,361,981	899,110	51.5
Shenzhen	761,509	545,268	39.7
Zhuhai	196,468	81,088	142.3
Shantou	161,182	97,659	65.0
Xiamen	242,822	175,095	38.7
Hainan	26,369	15,282	72.5

note: the output value is based on 1990's constant value.

## TRANSPORTATION

### CAAC Orders 13 Boeing 737's

OW1910025191 Beijing XINHUA in English  
1332 GMT 18 Oct 91

[Text] Beijing, October 18 (XINHUA)—The Civil Aviation Administration of China (CAAC) entered into a contract today with the Boeing Commercial Aircraft Group from the United States for the purchase of 13 Boeing 737 fuel-efficient twin-engine aircraft valued at over 500 million U.S. dollars.

The new contract, the third this year between Boeing and CAAC, brings the total number of aircraft ordered to 29 jetliners valued at over 1.4 billion U.S. dollars.

Jiang Zhuping, director general of CAAC, and Ron King, vice-president of Boeing Commercial Aircraft Group, participated in today's signing ceremony.

Li Zhao, CAAC deputy director general, said that the contract is important because it indicates the further development of Sino-U.S. aviation trade relations.

According to Li, airlines in China have purchased or ordered 125 Boeing airliners.

King said that his corporation is pleased with the CAAC decision to continue using 737s for its many trunk and feeder routes.

The Boeing 737 is a short- to medium-range passenger aircraft with a total seating capacity of 140.

### Auto Production To Double This Year

HK2810014891 Beijing CHINA DAILY in English  
28 Oct 91 p 2

[By staff reporter Chang Weimin: "Auto Production To See Great Leap"]

[Text] China's output of sedans will have doubled within twelve months as private car ownership comes into reach for more and more individuals.

Sources from the automotive industry say that production of sedans next year will be at least 120,000. Planned output for this year was some 63,000.

Imports of sedans next year will be reduced. The State plans on production and imports are now in the making, CHINA DAILY has learned.

The central government plans to make sedan manufacture a pillar sector of the national economy. Output is expected to reach 240,000 in 1995, and some 600,000 around the year 2000.

This is an ambitious goal for a country which six years ago was not able to produce modern sedans at all, experts said.



Chinese auto makers now manufacture sedans including German Volkswagen's Santana and Audi-100 cars, American Chrysler's Cherokee models, French Peugeot and Japanese-designed Charades.

If next year's sedan production is settled at that level, sedan production will account for 20 percent of the total automobile output. Sources said total auto production next year would be set at 600,000.

Sedan output for this year was planned to be 13 percent of the total automobile production, compared with 8.2 percent last year.

However, experts said real output of sedans next year may surpass the level planned by some 40,000.

Demand for sedans has been on the rise for the past five years, and the trend will probably continue next year, experts said.

Estimates put this year's demand at more than 100,000. Of the cars, some 40,000 were to be imported.

In addition, the 250,000 sedans that were imported and put into use between 1986-90 will need to be gradually replaced as they get old.

Automobile production for this year was planned at 510,000 but judging from the output for the year's first nine months, output of the whole year will reach 600,000.

Officials in the automotive industry said they preferred to be conservative in making plans as it is difficult to gauge the situation. The austerity programme between 1989 and the first half of this year has hit hard at auto production and sales and it has not yet been announced that it will end in the near future.

In the past several months, sales of sedans have surprisingly boomed and prices have been pushed up as a result.

Now, a Santana car made by the Shanghai Volkswagen sells at 190,000 yuan (\$35,000), compared with 170,000 (\$31,000) last year.

Price rises also occurred on other sedan models such as Audi-100 made by the Changchun-based No 1 Automobile Works, Charades made in Tianjin, and Cherokees made in Beijing.

Reports show that nearly all sedan makers are now speeding up production to meet rising demand.

## AGRICULTURE

### Experts Assess High-Altitude Cotton-Growing

*OW1910213091 Beijing XINHUA in English  
1502 GMT 19 Oct 91*

[Text] Hohhot, October 19 (XINHUA)—A good harvest was reaped from the first ever planting of some 245 mu (about 16 ha) of cotton in the grassland and desert in northern China's Inner Mongolia Autonomous Region.

This is also the first time for China to plant cotton on a large scale in such a northerly and high-altitude region.

The herdsmen and farmers in the region depended entirely on raising animals and planting grain, beet, and oil crops in the past.

But because it is more efficient to plant cotton than grain crops in the region, the regional government invited experts from Hubei Province to help with the planting of a cotton crop last year.

The experts experimented with a total area of 6,000 mu farmland in five cities and 15 counties. The results indicate that the fine varieties of cotton may grow well in the region, which has more than 20 million mu of land available for cotton planting.

At the beginning of this month, the region held a cotton producers meeting for the first time.

### Floating Population Causes Social Problems

92CM0028A Beijing ZHONGGUO SHEHUI BAO  
in Chinese 13 Sep 91 p 3

[Article by He Jichuan (0149 3444 1557): "Concern About Floating Population"]

[Excerpt] Since reform and opening up began, the floating population has grown steadily, and has become a social problem of universal concern. According to disclosures of the "Forum on the Floating Population Problem" convened in Shanghai in December 1989, the floating population nationwide was 50 million in 1985, and 70 million in 1987. There is at least one member of the floating population for every 20 people nationwide. According to a survey of Beijing, Tianjin, Shanghai, Guangzhou, Wuhan, Shenyang, Xi'an and Chongqing, the average total floating population in the eight large cities in 1988 was nearly 6 million, equal to the number of permanent residents in Wuhan City in 1987. Due to the increased floating population, the actual total population in these cities grew to 74 million, or about 10 percent more than the number of permanent residents. No wonder TIME magazine said in a commentary: "Today, China's floating population is the largest in history. The development of this state of affairs is similar to the situation during the industrial revolution in 19th Century Europe."

The reasons for the large-scale movement of the Chinese population are varied. First, since the Third Plenary Session of the 11th Party Central Committee implemented the principles of opening up to the outside world and invigorating the domestic economy, policy conditions for a floating population were created. Second, there is a large excess labor force in rural areas, and it must find an outlet. China's cultivated area has dropped from over 1.5 billion mu to more than 1.4 billion mu, the population has increased from 570 million to 1,100 million, and the cultivated area per capita has dropped from nearly 3 mu to 1.33 mu. The rural population has increased from 500 million to 900 million, the rural labor force has increased from 110 million to over 400 million; the surplus labor force is 220 million. Town and township enterprises employ 90 million, but 130 million people still need work. But the original small and daily declining land area, cannot satisfy labor and income needs. The best they can do is go to cities and towns searching for nonagricultural employment opportunities. Third, new capital construction projects are constantly getting under way, and numerous capital construction sites are attracting thousands and thousands of rural construction teams. Four, the price scissors of industrial and agricultural products, regional differences in product prices, and the large increase in output of agricultural and sideline products has caused many peasants to move, and economic leverage has driven the population to move elsewhere.

The emergence of a large floating population has led to rapid growth of the urban population, and some serious social problems have appeared in cities.

1. The critical situation in urban transportation is aggravated. The average daily volume of passenger flow in the Beijing Railways Station is 160,000-180,000, 5 or 6 times beyond the designed capacity. The daily moving rate of the floating population in the Shanghai area is 96 percent, a total of 2.77 million people moving daily, equivalent to one-fifth of the resident population. The moving floating population uses 77.3 percent of public transportation. In Tianjin, between 1980 and 1987, railway and civil aircraft departures increased 35.4 percent and 150 percent, respectively, greatly increasing the burden on the city's transportation and shipping.

2. The urban supply burden for daily necessities has increased. Based on supply standards for permanent residents in the three cities of Tianjin, Shanghai and Guangzhou, eight cities provide the floating population with 5.4 million jin of grain, 6 million jin of vegetables, and 1.2 million jin of meat daily. Guangdong has an annual shortage of 78 billion jin of grain, workers from other provinces alone consume approximately 1.5 billion jin. The enormous consumption of the floating population has had a definite impact on the daily consumption of the resident population, increased rationed goods on the market, increased the market price of grain, increased transactions for grain in the black market, and increased the burden on financial subsidies.

3. It has expanded the gap between supply and demand for scarce urban resources. Water for domestic purposes has always been in short supply in Beijing, but due to the large increased floating population, demand for water for domestic purposes has continued to rise. Water for domestic purposes used by Beijing residents in 1990 increased nearly 3 billion tons over 1981, and with the consumption of a floating population of over 1 million, the relationship between water supply and demand became more critical.

4. Among the floating population legal violations and severe threats to social order are noticeable, and the problem of urban social order is even grimmer. The composition of the floating population is complex. Those without legitimate occupations beg, steal, become prostitutes, and are reduced to crime. Seventy percent of the various cases occurring in the Fanhua district of Beijing are committed by outsiders who have come to Beijing. According to the Tianjin Municipal Public Security Department, the crime rate among the floating population is 93.3 per thousand, and in some districts reaches 259 per thousand, but the crime rate among permanent residents is only 3.6 per thousand. Over 90 percent of the prostitutes investigated in Guangzhou City in 1986 were outsiders.

5. The proportion of excess births by women of child-bearing age among the floating population is high, which creates new difficulties for the city's family planning work. Among the floating population, excess births are serious. According to an investigation in Shanghai Municipality, 71.5 percent of the females in the floating population are of child-bearing age. Four percent get

pregnant and bear children outside the plan, 6 times more than the resident population. The floating population of Guangzhou City is concentrated in the Zhujiang Delta, and half the births in the region are among the floating population. Xinji Street in Qitaihe City, Heilongjiang has 276 floating population households,

and 212 of them have excess births. Births and pregnancies outside the plan among women of child-bearing age in the floating population have reached 4 percent, much higher than the 0.6 percent proportion of births outside the plan among the registered population in 1988. [passage omitted]

### Editorial on Premier Hao's Conference With Entrepreneurs

91CE0110B Taipei CHING-CHI JIH-PAO in Chinese  
6 Sep 91 p 2

[Editorial: "Core Topics of the Extra-Governmental Economic Conference"]

[Text] Premier Hao Pei-Ts'un is scheduled today to hold a conference on the economy with people outside the government. Various industrial groups and entrepreneurs have been invited from around the island to exchange ideas on current economic issues and to discuss ways of resolving difficulties in business operations.

With exchange rates, interest rates, and taxes all posing problems for entrepreneurs right now, no doubt the various industrial groups and entrepreneurs will all express a wide range of differing opinions to Premier Hao. As the saying goes, all families have their problems. However, in our opinion, there is one question which must be of primary concern to the premier during this conference on the economy: with the economy growing stronger, why is domestic investment still in the doldrums? Only by understanding this key issue can we effectively deal with exchange rates, interest rates, and taxes, and only then can we remain above the fray regarding the interests of the various industries and come up with a comprehensive set of financial and economic policies.

We must point out that under normal circumstances, economic recovery, falling interest rates, and increased money supply have always spurred investment. However, that is not happening this time.

Although the composite index of leading economic indicators rose continuously from March through June of this year, in spite of the fact that the central bank lowered the discount rate in July, which led to lower market interest rates; and even though the growth rate of  $M_1B$  and  $M_2$  money supply was the fastest it has been in the past two years; nevertheless, domestic investment, which has been weak for some time and which is a matter of great concern to people here, has not yet recovered. What is the reason for this? Is there any way to overcome the current bottleneck?

Rapid growth in investment and exports have always been the mainstays which have enabled Taiwan to maintain a high rate of economic growth. Furthermore, these two phenomena are mutually interactive; only rapidly growing investment can spur rapid expansion of exports. Conversely, only a favorable export outlook will spur rapid growth in domestic investment. This is how Taiwan's economic miracle was achieved in the 1960s and 1970s.

Investment is the cause, of course, while exports are the effect. Only with continually expanding investment can there be continually growing exports. What is it which spurs investments? The following factors occur to us: a

good investment climate; abundant and inexpensive labor; a stable and well-ordered society; and tax and banking concessions. There are several factors which make for a good investment climate, including: easily obtained and low priced land; good infrastructure; and a steady supply of water and power for industrial use. Precisely because of the existence of these factors, ever since the first four-year economic development plan of the 1950s, domestic investment has continually grown stronger and industry has developed rapidly to the point where we have finally become a newly industrialized country and one of the largest trading countries in the world.

In view of these factors, we find it easy to understand why investment remains slack in spite of the fact that Taiwan is awash in funds. There are three main reasons:

First, the domestic political climate is not healthy. Politics and the economy are inseparably linked. A healthy political climate is a precondition for economic development. There has never been a politically unstable country capable of achieving good economic development. Political stability was one of the main reasons why Taiwan was able to achieve stable development in the 1950's and 1960's. Then in the 1980's, domestic politics became liberalized. The ban on political parties was lifted, and the pace of democratization quickened. In principal, this could have allowed politics to move on to a higher plane of democratic and constitutional government; unfortunately, democratization has not been carried out in a level-headed manner. In the early stages, there were protest marches in the street, and now violent groups advocating the "establishment of a Taiwanese nation" have appeared, and advocates of Taiwanese independence actually appear in public. Although it is a very small number of people engaged in these activities, it has caused the great majority of society to feel uneasy and to gradually lose faith in the authority of the government. With this type of political climate coloring the people's view of the nation's political future, who would be willing to invest? Small wonder Premier Hao emphasized gravely at the assembly meeting of the Executive Yuan on 29 August that economic growth must be achieved on the foundation of political stability and improved social order. Democratization must progress in an orderly and gradual manner; it cannot become a source of chaos which threatens economic development. Small wonder that leaders in the business community have called for the preservation of a minimum level of social order, saying that without this, there is no future for Taiwan's economy.

Second, it is precisely the worsening of the domestic political climate plus the politicization of the environmental movement, particularly opposition to several large scale investment projects, which has thrown a wrench in investment plans. Furthermore, wages in Taiwan are rising, there is a shortage of labor, and the high cost of land (as well as the difficulty of obtaining it) have forced many investors to direct their funds abroad, particularly to Southeast Asia, and even to establish

factories in the mainland. For the time being, the political climate is relatively stable in several Southeast Asian nations such as Malaysia, Thailand, and Indonesia. Furthermore, wages are low and land is easy to find, although their level of industrial development does not match that of Taiwan. The governments in those countries, furthermore, are doing everything they can to attract foreign investment. With all of these advantages, industrialists in Taiwan are naturally too happy to invest in those countries, which reduces the amount of investment in Taiwan. As for the mainland, apart from economic considerations, the Chinese Communists also have political considerations. They hope to use political means to bring Taiwan under their political control. Businessmen are not concerned about politics, though. The prospect of economic benefit has spurred a rash of interest in investing in the mainland. Since great quantities of funds are flowing abroad, domestic investment has naturally decreased.

Third, in terms of purely economic factors, long-term interest rates are somewhat high, and the pressure of expected appreciation of the new Taiwanese dollar against the U.S. dollar continues to exist. The Central Bank is ultrasensitive to inflation and market speculation, which has caused long term retrenchment in the banking industry. In addition, energy resources are in short supply, labor is expensive and scarce, and workers show a preference for the service industries. All of these factors discourage domestic investment.

We propose the following measures to deal with these circumstances: First, the government should take a clear stance regarding illegal and violent behavior which affects the nation's stability. It must deal with such behavior in accordance with the law in order to restore confidence in the authority of the government. Second, the domestic investment climate must be rectified. Problems involving land, energy resources, industrial water, environmental protection, and infrastructure must be resolved in order to rekindle the interest of investors. Third, the Central Bank should lower the reserve ratio on all categories of deposits in order to induce an appropriate lowering of interest rates and to relieve upward pressure on the new Taiwanese dollar. Market credit should be loosened up to an appropriate degree, and the policy of retrenchment should be abandoned. We are confident that if these three measures can be carried out simultaneously, the possibility for an appropriate increase in domestic investment still exists. The result of Premier Hao's economic conference today is not yet known, but we are confident that if the core issue of domestic investment is handled properly, everything else will be easily solved.

### Backgrounds of Congressional Aides

91CM0512A Taipei HSIN HSIN WEN [THE JOURNALIST] in Chinese No 225, 7 Jul 91 pp 34-35

[Article by Lin Chia-chun (2651 1367 5028): "Enquiry Into the Backgrounds of 576 Congressional Aides—Finding Out Who They Are: Wives, Children, Brothers"]

[Text] After congressmen of the Democratic Progressive Party got wind of the "constitutional government investigation," by Li Kai-ping [0632 7030 1627] and Shen Shih-hsien [3038 0013 6343], which was about the status of congressional aides and which was carried out in the Legislative Yuan by investigators of the Taipei Investigation Office of the Bureau of Investigation, many spies were flitting about in the Legislative Yuan.

According to the "Record of Congressional Aides," compiled by the personnel office of the Legislative Yuan, 658 identity cards for "aides personally employed by delegates themselves" had been issued for the 87th Session of the Legislative Yuan, but 80 of these had been invalidated as either lost or due to termination of employment. This, therefore, leaves the number of congressional aides actually at 576, but a careful examination of the congressional aides listed in the register will reveal that the relationship between congressman and aide has not been purely one of boss and employee. In some cases, the relationship was that of a husband-wife team, as for instance in the case of Hsu Chi-yu [6079 0796 0147], the former head of the Taiwan Provincial Tourist Bureau who had resigned after the capsizing incident on Sun-Moon Lake. He was the husband of Hsu Chang Ai-lien [6079 1728 1947 1588] and was, of course, also her congressional aide. Yang Tsu-chun [2799 4371 8823], the wife of Lin Cheng-chieh [2651 2973 2638], had to come out personally and help handle affairs of the Legislative Yuan to alleviate a situation that required cutting down of expenses.

There is also the case of Lin Chiu-man [2651 4428 3341], the wife of congressman Wei Yao-chien [7614 5069 0051], who also obtained a congressional aide identity card, but Mrs. Wei had hardly ever appeared at the Legislative Yuan. Li Chen Tsai-hua [2621 7115 1752 5478], the wife of Li Ching-hsiung [2621 1987 7160], had also obtained a congressional aide identity card, the same as Lin Chiu-man, but Mrs. Li had indeed frequently come to the Second Research Office and helped Li Ching-hsiung handle business affairs.

In addition to husband-wife teams, there had also been father-son teams. Liao Wen-hao [1675 2429 4110], the son of Liao Fu-pen [1675 4395 2609] [occasionally spelled Liao Fuw-peen and Liao Hwu-peng], was employed by the Bureau of Investigation, but also helped his father as an aide and can be said to have made full use of his status. However, Liao Fu-pen explained that the reason why Liao Wen-hao registered as an aide was that he had applied for a scholarship to an American university in his capacity as a congressional aide and that he wanted to maintain his status as a congressional aide as long as his academic career was still in abeyance, not wanting to disrupt the pending scholarship matter. The way he spoke of it, in fact, adds an additional function to the job of congressional aide.

There are also the following cases: Liang Hsuan-sheng [2733 1357 4141], an employee of a travel agency, is the son of Liang Hsu Chun-chu [2733 6079 2504 5468];

Huang Shih-cho [7806 6624 0587] is the son of Huang Chu-wen [7806 0031 2429]; Chang Shao-yin [1728 7300 7299] is the daughter of Chang Chun-hsiung [1728 0193 7160]; Chiu Tzu-cheng [6726 1311 2398], who is getting ready to enter the election campaign at the end of this year for a seat in the National Assembly, is the son of Chiu Lien-hui [6726 6647 6540]; Li Cheng-yao [2621 2973 1031] and Li Cheng-shun [2621 2973 5293] are the two sons of Li Tzu-chun [2621 1311 7486]. All these obedient and loving children, who are so eager to share the worries of their parents and relieve them of work, have obtained congressional aide identity cards, mainly to facilitate entry into the Legislative Yuan without having to register at the visitor's office. More important is the fact that these aides will take no salaries and thereby save the delegates some money.

There are also quite a few incidents of brother-brother teams. Ou Chung-nan [2962 1813 3948] and Hsueh Kuo-liang [5641 0949 2856], congressmen elected by the overseas Chinese, have Ou Chung-lin [2962 1813 2651], a younger brother, and Hsueh Kuo-tsung [5641 0949 1350], an older brother, serving as their aides. Another congressman elected by the overseas Chinese, Kao Tzu-min [7559 6327 2404], had his younger brother Kao Tzu-pin [7559 6327 1755] serving as his aide. Huang Ho-teng [7806 3109 3397], the younger brother of Huang Ho-ching [7806 3109 7230], is also serving as a congressional aide. We are indirectly informed that serving as a congressional aide is regarded as a certain social achievement. There is, therefore, no salary paid to one's brothers; the most that is done is to add their names on the register and thereby share in the glory of having a brother who is a congressman. However, Ou Chung-lin, who has now started his own trading company, said he had never in the past taken a salary as an aide but in July will start to get from Ou Chung-nan the 25,000 yuan aide fee provided by the government.

Apart from these close relations of every sort, there are also quite a few other types of people on the aide register, such as professors, political commentators, blacklisted elements of the opposition, and movie stars. Yang Tai-shun [2799 3141 7311], a professor of political science at the National Chengchi University, is an aide personally employed by Chen Li-chien [7115 2980 0256]. Chen Li-chien said that Yang Tai-shun had asked him two months ago to appoint him congressional aide but without salary. The reason for Yang Tai-shun to request a congressional aide identity card was also to facilitate his visits to the Legislative Yuan to collect materials for his academic studies. Yang had also brought his students to listen to proceedings at the Legislative Yuan and to meet congressmen for discussions. Chen Li-chien repeatedly has praised very highly the scholarship of Yang Tai-shun and has asserted that "it would be more correct to say that professor Yang is my guide and teacher rather than my aide" because Chen would frequently refer questions to Yang Tai-shun and solicit Yang's opinion.

Although Liang Su-jung [2733 5126 2051] [occasionally spelled Liang Su-yung], president of the Legislative

Yuan, has several confidential secretaries, he still has two personally employed aides. One is Hsu Ting-hsin [1776 1353 1800], a former correspondent of the LIENHO PAO [UNITED DAILY NEWS] and publisher of the TSAISHIH YUEHKAN [FINANCIAL TRENDS MONTHLY]. The other is Chen Wen-chun [7115 2429 0193], professor at the Chungshan Research Institute of Chungshan University. Hsu Ting-hsin considers both himself and President Liang as having come from a jurisprudence background and "being very close conceptionally." He regularly helps Liang Su-jung in handling his private matters. As to whether he receives any salary, Hsu Ting-hsin said that "it is inconvenient to discuss this."

Chen Wen-chun said that he became well acquainted with Liang Su-jung at the time he served in the Policy Coordination Committee of the Kuomintang Central Committee but indicated that he was not at all a congressional aide but that he merely occasionally drops in on President Liang to discuss certain questions. He also had never addressed inquiries on behalf of Liang Su-jung and had never taken a penny from Liang.

Moreover, Miu Chi-hu [6208 1376 5706], professor of political science at the Soochow University, is an aide to Hu Chiu-yuan [5170 4428 0626] a congressman and great scholar. He, too, said that his motive in seeking out Hu Chiu-yuan was to get the aide identity card which saves him the trouble of exchanging permits when he goes to the Legislative Yuan to look for material for his academic studies. Miu Chi-hu said that during the time he studied in France, he often submitted articles to the CHUNGHUA TSACHIH magazine; that after his return to China, someone had introduced him to Hu Chiu-yuan; that he had also arranged through Hu Chiu-yuan for hearings be held at the Legislative Yuan on "the birth of a social welfare department;" and that all of this was done without salary.

The political commentator Hang Chih [2653 0037] [Chen Chung-hsin 7115 1813 0207] is registered as an aide to congressman Hsu Kuo-tai [6079 0948 3141]. He said that he is helping handle some affairs in the office of Hsu Hsin-liang [6079 0207 5328] which sometimes requires visits to the Legislative Yuan; for that purpose, it is convenient to have a congressional aide identity card. Hsu Jui-feng [6079 3843 1496], formerly a blacklisted dissenting element and now deputy chairman of the new national assembly united research office, is now registered as congressional aide to congressman Huang Tien-sheng [7806 1131 3932]. This was probably done, as we understand, because there is a comparatively large number of assistants at the said research office, while the number of aides that could be allotted to the new four congressmen at the research office was limited (one congressman is allowed to ask for four aide identity cards). Therefore, the best that could be done was to include him in the aide allotment for Huang Tien-sheng.

The film star Lin Ching-hsia [2651 7230 7209] has had the position of aide to congressman Kao Tzu-min since

the 86th Session of the Legislative Yuan. According to information from his younger brother Kao Tzu-pin, Kao Tzu-min did not know Lin Ching-hsia before, and it was only later when Lin Ching-hsia lived in Washington, D.C. for a while, that Kao Tzu-min looked after her and became acquainted with her. After Kao Tzu-min returned to China and became a congressman, Lin Ching-hsia on her own initiative asked whether Kao Tzu-min could help her, whereupon Kao Tzu-min asked her to serve as his aide. However, soon after Lin Ching-hsia had become congressional aide, Xu Chih-yuan [6079 0037 6678], chief congressman elected by the overseas Chinese, repeatedly raised the question of a suspected Chinese Communist "united front" character of the movie "Kun Kun Hung-Chen" ["Get Away, You Materialist World"], in which Lin Ching-hsia played the leading role. This was a considerable embarrassment to Kao Tzu-min. After one or two appearances at the Legislative Yuan, Lin Ching-hsia never again showed herself at the Legislative Yuan.

As a matter of course, any congressman worth his salt should have behind him a group of aides and staff of good quality and fine character to assist him in his duties. However, the occurrence of congressional aides being merely members of units that are governed by personal and emotional sentiments really amounts, after all, to congressmen degrading themselves, and it would be idle to talk of raising the quality of their ways of responsibly concerning themselves with government affairs.

### **Controversial Draft Constitution Published**

92CM0005A Taipei TZULI WANPAO in Chinese  
26, 27, 28 Aug 91

[Article in Three Installments: "Draft Constitution of Taiwan"]

[26 Aug 91 p 3]

#### **[Text] Section I. General Program**

Article 1. Taiwan is a democratic republic of the people, by the people, and for the people whose name is the Republic of Taiwan.

Article 2. Taiwan's sovereignty resides in all the people.

Article 3. All Taiwan nationals are citizens of Taiwan.

Article 4. Taiwan's territory includes Taiwan Island, the P'eng-hu Archipelago, Chinmen, Matsu and affiliated islets, and all other territories to which national sovereignty extends.

Article 5. The national flag, the national emblem, and the national anthem are to be set by law.

#### **Section II. Rights and Duties of Citizens**

Article 6. The basic rights set forth in this section limit the legislative, the judicial, and the executive branches of

government and are the immediate valid rights of the citizens. They may not be infringed without due legal process. If illegally infringed, nationals have the right to resist. Individual dignity positively may not be violated. Respect for and safeguarding of individual dignity is the duty of all government organs.

Article 7. All nationals are equal before the law; they may not be discriminated against or enjoy special privileges because of sex, race, lineage, language, religion, politics, class, occupation, political party, family, region, or education.

Article 8. Personal freedom must be guaranteed. Except for the arrest of criminals caught in flagrante delicto as separately provided by law, no one may be searched, detained, or imprisoned without a search warrant or arrest warrant duly issued by judicial or police organizations in accordance with legal procedures; no interrogations or punishments may be made except by courts in accordance with legally prescribed procedures; and all searches, detentions, holdings in custody, interrogations, and punishments performed that are not in accordance with legal procedures are to be rejected.

Before investigating or interrogating a suspect, arresting and custodial organs must immediately inform him of his right to remain silent and to retain a lawyer or public defender. Otherwise, the suspect's confession is null and void and may not be used as evidence for his conviction. When a person who is detained or held in custody requests a lawyer's assistance, the detaining or custodial organ must immediately halt questioning or interrogation.

When a citizen is detained or taken into custody on suspicion of a criminal act, the detaining or custodial organ must immediately provide a written notice of the reasons for detention or imprisonment to the accused or to a relative or friend he has designated and turn him over to the court in charge for questioning within 24 hours.

The accused or another should also request the court having jurisdiction or another court having authority to exercise its authority to summon the arresting organ to bring the accused before the court within 24 hours.

The court may not reject such a request, nor may it direct that the arresting or custodial organs conduct an investigation first. The arresting or custodial organs may not refuse or delay the court's summons. When a citizen is illegally detained or taken into custody by any organ, the accused or another person may petition the court for an investigation. The court may not reject such a petition but must make inquiries of the arresting or custodial organ within 24 hours for handling according to law.

Article 9. The accused in a criminal case must be presumed to be innocent until convicted.

The accused in a criminal case or his or her representative has the right to request an open and fair trial and to retain a lawyer or public defender.

A citizen may not be subjected to any form of torture to extract a confession, nor may he or she be pressured during the course of a criminal case to provide evidence inimical to himself or herself, or be forced to make a confession through the use of beatings, force, threats, illegal prolongation of arrest, or deception. When a confession is the sole evidence against the accused, the confession may not be used as evidence for conviction, nor may the accused be penalized on the basis of the confession.

The accused in a criminal case may reject statements inimical to himself or herself. He or she may reject witnesses or testimony inimical to himself or herself; and he or she may demand to confront witnesses inimical to himself or herself.

No person may be held criminally liable if his behavior was legal at the time it occurred or if he or she has been declared innocent. No person may be held criminally responsible a second time for the same crime.

Sentences may not be heavier than those prescribed by law at the time an offence was committed.

Article 10. Nationals have the right of petition, the right of appeal, and the right to sue.

Nationals may not be discriminated against or subjected to different treatment as a result of petition or suit.

Except for active duty military offenders and cases related to military matters, no person may be tried under military law.

Article 11. No law may not make the death sentence mandatory.

Article 12. Nationals have freedom of thought, speech, press, assembly, association, and other forms of expression. Censorship or approval in advance is prohibited.

Article 13. Nationals have the right to know and to receive publicly available information and to use public broadcasting media.

Governments and political parties may not monopolize the mass media.

Military organs may not invest in or operate mass broadcast media.

Article 14. Nationals have the freedom of religion and belief.

Article 15. Nationals have the freedom of secret communications. Nationals have the right to privacy, which may not be infringed.

Article 16. Residences may not be violated. A search warrant issued by a judge that states the reasons is required for searches of residences.

Article 17. Nationals have the freedom to move their residence inside or outside the country.

Citizens' right to return to the country may not be limited or deprived for any reason.

Article 18. The right to exist must be guaranteed.

The aged, the young, pregnant women, and mothers with children, the physically or mentally handicapped, and other disadvantaged nationals must be properly protected in accordance with humanitarian principles.

The state must provide special care in the form of education, culture, social welfare, hygiene and sanitation, medical treatment, transportation, water conservancy and other aspects of life to impoverished regions and to minority peoples.

Article 19. Environmental rights must be guaranteed.

Both nationals and government are duty-bound to protect the environment in order to ensure the continued residence and survival of all citizens.

National economic development may not damage the sustained protection of the ecological environment.

Nationals have the right to enjoy a healthy and safe living environment. Quality standards for the living and work environment must be legally set.

Nationals have the right to take part in decisions about and supervision of the use of the environment and resources.

Article 20. The right to work must be guaranteed.

Nationals have the right to choose freely an occupation, a job, vocational education, and training.

Nationals must have opportunity to obtain the materials needed in daily life in order to take part in economic labor. The livelihood of all who are denied suitable work opportunities as a result of illness, infirmity, injury, handicap, or some other legitimate reason must be taken care of as necessary. The injured and the handicapped who desire to work must receive active assistance from the state in the form of training and employment, and they must be helped to improve their working environment. Alternatively, they must be helped to obtain special tools that benefit their work in order to be able to engage in economic activity.

Standards pertaining to nationals' wages for labor, work hours, rest, and other labor conditions must be consistent with the requirements of a healthy life and be set by law.



Nationals must not be compelled to do any specific work; however, those sentenced according to law in a court are not included in this restriction.

Article 21. All workers have the right to organize, the right of group consultation, the right to labor disputes, and the right to take part in decisions and other activities.

Any contract that restricts or deprives workers of their career rights or that has such an intention shall be null and void. Any measure that restricts or deprives workers of their career rights, or that has such an intention shall be null and void. Under no circumstances may the afore stated rights of workers be forcibly restricted or taken away on the pretext of the public interest or the safeguarding of public order except through consultation with and the agreement of the workers or as the result of a court ruling.

Article 22. Property rights must be guaranteed, their substance and limitations set by law.

The use of property must be socially responsible. The distribution, buying and selling, and use of property must take into account social benefit in order to guard against speculation and monopolization that damages the social interest.

The appropriation of private property must be based on the public good, proper compensation made as prescribed by law.

The means of livelihood and the property of an accused in a criminal case that are not related to his or her crime may not be expropriated or confiscated.

Article 23. Nationals must have the right to be tested in accordance with law for service in public positions.

Article 24. Multiple culture and multiple language policies must be guaranteed. The use of a single common language may not be coerced nor may different languages be discriminated against. In education, a multiple language policy must be the principle and established in law.

Article 25. In carrying out education, culture, and physical education nationwide, the state must make every effort to reward scientific and technical innovation and invention and protect historical and artistic relics.

Article 26. Academic freedom must be guaranteed. The establishment of private schools must be encouraged.

Public universities must be regarded as public juridical persons.

Universities administered by professors, and student autonomy must be guaranteed by law.

Article 27. Marital relations are to be based on the equal rights of husband and wife. Choice of mate, property rights, continuation [4949 4958], selection of residence, divorce, guardianship of children, and other laws having

to do with marriage and family matters must be drawn up on the principle of individual dignity and equality of both sexes.

Article 28. The state must put into effect health, old age care, retirement, and unemployment insurance for all the people. Government must provide appropriate assistance and relief for women, children, the elderly, the injured and the handicapped, those who are unable to make a living, and those stricken with extraordinary calamities. In social welfare, both society and the state must legislate to guarantee the rights and interests of sick people.

Article 29. The state must formulate policies to provide rational protection and encouragement of agriculture and the fishing industry as a means of promoting balanced industrial development.

Article 30. Nationals may not be deprived of citizenship. Loss of citizenship must be based on law. No litigant may be rendered stateless against his or her will.

Nationals may not be deported.

A national may not be extradited to a foreign country.

Article 31. Nationals have the right and obligation to a publicly funded legally prescribed education.

Parents and legally appointed guardians are duty bound to permit minor children to receive a legally prescribed education. The physically and mentally handicapped have the right to receive publicly funded, specially legally prescribed education and employment guidance.

The state must formulate award measures to assist nationals in obtaining higher education.

Article 32. Nationals have an obligation to pay taxes and perform military service according to law.

Article 33. All other citizen freedoms and rights that do not impair the public benefit are constitutionally guaranteed.

Article 34. All the other freedoms and rights enumerated above, except those necessary for the public benefit, may not be limited by law.

The above legal restrictions must explicitly indicate the basic rights and pertinent articles to be limited.

Article 35. Public servants who infringe on the freedom or rights of nationals are not only to be punished according to law, but are also to bear civil and criminal responsibility. Injured parties may request indemnification from the state according to the damage sustained.

Article 36. Except where the law provides separately, foreigners are to enjoy the same freedom and rights as nationals.

Foreigners who are politically persecuted abroad enjoy the right of asylum.

Foreigners bear obligations according to the provisions of the law.

[27 Aug 91 p 3]

[Text] Section III. Civil Rights

Article 37. Nationals 18 years of age may exercise their right of franchise, recall, initiative, and referendum. Unless otherwise prescribed in the constitution or in law, citizens 20 years of age have the right to be elected according to law.

Article 38. Exercise of the civil right to vote must be universal, free, equal, direct, and secret.

Article 39. Planning, execution, and supervision of the exercise of civil rights are to be the responsibility of central government, city and county (or local self-government groups at the same level), and municipal district, township and town (or local self-government bodies at the same level) civil rights committees.

Civil rights committee members at all levels are to be nominated by the heads of administrative organs at all levels, their appointment contingent on agreement of parliamentary organs at all levels.

Parliamentarians may not serve concurrently as members of civil rights committees, and members of the same political party in a civil rights committee may not number more than one-third.

The organization of civil rights committees at all levels is to be prescribed by law.

Article 40. Members of civil rights committees at all levels must exercise their functions independently according to law without regard for their party affiliation or personal interests.

Article 41. The exercise of civil rights is to be at public expense.

Government must subsidize all elections out of public funds, and protect the rights of all candidates to equal use of broadcast media and public facilities according to law.

Section IV. Political Parties

Article 42. Nationals may freely organize political parties to engage in partisan activity.

Article 43. The organization and activities of political parties must scrupulously respect democratic principles.

Article 44. Political parties may not establish party headquarters in public organs; however, this limitation does not apply to parliamentary organs at all levels.

Article 45. Political parties must compete fairly, and they may not arrogate to themselves, monopolize, or take advantage of the use of national resources. Except for the publications of publishing organs, they may not invest in or operate any profit-making ventures.

Article 46. Political parties must make public their sources of funds.

Government must subsidize the expenses of all political parties on the basis of the number of votes received, the method to be prescribed by law.

Section V. The President

Article 47. The president is the head of state who represents the nation abroad.

Article 48. Executive authority resides in the president.

Article 49. The president chairs the State Council [0948 0523 2585 6231]

The natural members of the State Council are the heads of ministries and commissions.

Article 50. The president is supreme commander of the land, sea, and air forces of the entire country.

Article 51. The president's conclusion of a treaty must be ratified by more than two-thirds of the national assembly to become effective.

Article 52. The president must obtain ratification of more than two-thirds of the National Assembly before declaring war.

Article 53. The president possesses authority according to law for granting amnesty, special pardons, reducing sentences, and restoring rights.

Article 54. The president must declare martial law according to law.

Following a declaration of martial law, the National Assembly must automatically convene. Should more than two-thirds of the National Assembly so resolve, the president may be requested to lift martial law.

Article 55. The president appoints all heads of ministries and commissions, and he appoints and dismisses civil and military officials according to law.

The position of minister of national defense must be held by a civilian.

Active duty military personnel may not be converted to serve as civil officials.

Article 56. The president may confer honors according to law.

Article 57. The president must present an annual report on the state of the nation to the National Assembly.

The National Assembly may ratify it by a simple majority vote, and request the president to present a report to the National Assembly on major issues.

Article 58. A national who is 40 years of age or older, and who was either born in Taiwan or has established residence in Taiwan for more than 15 years may be elected president or vice president.

Active duty military personnel and professional military men who have not retired for at least six years may not be elected president or vice president.

The president and vice president are to be directly elected for a period of four years by the citizens of the whole country, and may be elected once to a consecutive term.

Article 59. The president must take an oath at the time of assuming office, the oath being as follows:

"I solemnly and sincerely swear to the nationals of the whole country that I will abide by the constitution, will faithfully discharge the duties of the office, will promote the citizens' welfare, protect the nation, and will not disappoint the citizens' trust. To this I sincerely swear."

Article 60. Election of the president and vice president is to be by more than half the number of valid ballots. If no one receives more than half of the valid ballots during the initial vote, the time of the second vote is to be on the following Friday. Only the two candidates who received the highest number of votes in the first vote may take part in the second vote. The party receiving the highest number of votes in the second vote is elected.

The election of a newly appointed president or vice president must be held 60 days prior to the completion of the term of office of the incumbent president.

Article 61. After one year in office, both the president and the vice president may be recalled on a motion from the central civil rights committee provided more than one-tenth of all citizens in the country have jointly signed a petition. The recall bill may be passed only through more than half of the number of valid ballots.

The election recall of the president and vice president is to be separately provided by law.

Article 62. When the president is absent from office, the vice president continues in office until the president's original term in office expires. Should both the president and vice president be absent from office, the head of the national assembly is to perform their functions, and another election is to be held within 60 days, the period of service to be only sufficient to complete the unexpired term of the former president.

When the president is unable to attend to affairs after assuming office, the vice president is to perform functions in his stead. When neither the president nor the vice president is able to attend to affairs, the speaker of the national assembly is to perform functions on their behalf. The speaker of the national assembly may not act on behalf of the president for longer than three months.

When the president and vice president are absent from office or are otherwise unable to attend to affairs after assuming office, and functions cannot be performed as specified in the foregoing, the order of succession in discharging official functions is to be as separately provided by law.

A president who has held the office for no more than two years is not to be limited by the consecutive term provision in Article 63 of this constitution.

Article 63. A president who has not been dismissed or relieved of duties is not to be held criminally liable except in the case of complicity in internal turmoil.

#### Section VI. The National Assembly

Article 64. The National Assembly is the supreme legislative organ of the state, and it is made up of citizen-elected national assemblymen.

Article 65. Legislative authority other than that separately specified in this constitution is to be exercised by the National Assembly.

Article 66. The National Assembly has authority to pass legal bills, budget bills, final accounting bills, amnesty bills, declaration of war bills, peace bills, treaty bills, martial law bills, and impeachment bills.

The National Assembly has authority over presidential appointments of the following officials:

1. Ambassadors.
2. Chiefs of intelligence and security.
3. The chief of general staff.

Except for matters separately specified in this constitution, passage of legislation by the National Assembly is by more than half of the statutory number of delegates.

Article 67. National assemblymen totaling 120 are to be directly elected by all citizens, specific methods for electing them to be provided by law.

Article 68. The term of office for national assemblymen is four years, and they may serve consecutive terms if consecutively elected.

The election of national assemblymen must be completed within three months before expiry of the term of office of each assemblyman.

Article 69. The National Assembly is to have one speaker to be elected by the national assemblymen, and two deputy speakers. Deputy speakers are to be from the political parties in the National Assembly having the largest and second largest number of delegates, each of which is to select one person for the position.

Article 70. The National Assembly is to establish various committees, each of which is to establish groups.

Each of the committees and groups may invite government personnel and personnel concerned with the assembly to take part in hearing testimony.

Article 71. The National Assembly may set up special committees to exercise its investigation authority and to hold meetings to hear testimony.

Article 72. The National Assembly may propose impeachment bills against the president, vice president, all heads of ministries and commissions, constitutional law judges, ambassadors, and general grade military officers for violations of the law or dereliction of duty.

All National Assembly impeachment bills against heads of ministries and commissions, constitutional law judges, ambassadors, and general grade military officers require a motion from more than one-fifth, the attendance of more than three-fourths, and the passage of more than one-half of national assemblymen in order to be valid.

Impeachment of the president or vice president must be on the motion of one-third, the attendance of more than three-fourths, and the passage by more than one-half of national assemblymen, and the attendance of more than four-fifths of constitutional law judges, more than three-fifths of whom approve in order to be valid.

Article 73. The National Assembly is to meet twice annually, assembling automatically.

The first session is to run from 1 January to the end of June.

The second session is to run from 1 September to the end of December.

Article 74. Ad hoc sessions are to be held whenever the National Assembly confronts the following situations:

1. On the advice of the president.
2. At the request of more than one-fourth of national assemblymen.

Article 75. Once the National Assembly has passed laws and budgets and forwarded them to the president, the president must promulgate them within 10 days.

If the president does not agree with the laws and the budget that the national assembly has passed, he is to send them back to the National Assembly for reconsideration within 10 days after receipt. During reconsideration, if the original decision is sustained by two-thirds of the assemblymen, the laws and the budget take effect.

Article 76 Final accountings of national revenues and expenditures are to be examined and verified independently in accordance with law by the Ministry of Audit.

The Minister of Audit must complete examination and verification within three months following the president's presentation of the budget report, presenting the examination and verification report to the National Assembly.

The Minister of Audit is to be nominated by the National Assembly and appointed subject to national assembly concurrence.

Article 77. National assemblymen may not serve concurrently as government officials.

Article 78. National assemblymen may not be held responsible outside the assembly for statements and votes made inside the assembly.

Article 79. Unless caught in flagrante delicto, national assemblymen may not be detained or taken into custody without approval of the National Assembly.

Article 80. The organization of the National Assembly is to be prescribed by law.

[28 Aug 91 p 3]

#### [Text] Section VII. Administration of Justice

Article 81. Authority for the administration of justice is exercised by constitutional law courts and the supreme court together with subordinate courts at all levels.

Article 82. Constitutional law courts handle the following kinds of cases:

1. Litigation about the limits of authority among central government organs.
2. Litigation about the limits of authority between the central government and local governments.
3. Litigation about state organ infringement of human rights or civil rights in violation of the constitution.
4. Investigations of laws and decrees in violation of the constitution.
5. Other matters pertaining to constitutional law or legal provisions.

Article 83. The Constitutional Law Court is to consist of 15 constitutional law judges to be nominated by the president and appointed, subject to agreement of the National Assembly, for a six year term of office, and permitted to succeed themselves for an additional two terms.

Article 84. The Supreme Court and subordinate courts at all levels may try the following kinds of cases:

1. Civil suits.
2. Criminal suits.
3. Administrative suits.
4. Other matters provided by law.

Article 85. The Constitutional Law Court and the Supreme Court are to present a budget bill to the National Assembly for the budget needed for the administration of justice.

The Supreme Court is to present a legal bill to the National Assembly for the organization and the judicial procedures of judicial organs concerned.

Article 86. Judges may not be members of a political party.

Judges must try cases according to law and they bear an obligation to resist all interference.

When a judge experiences doubt about a constitutional point in the application of laws to a case being heard, he must halt the trial to request investigation of a violation of the constitution.

Article 87. Judges are appointed for life. They may not be removed from office unless found guilty of a criminal act, impeached, or declared incompetent. Except in accordance with law, they may not be relieved of their position, transferred, have their salary reduced, or be forced to retire.

Article 88. The jury system is to be used in trials of the first instance in criminal cases.

Jury personnel [0639 1399 0765] are not to be judges of constitutional law.

Article 89. The Constitutional Law Court and the Supreme Court, as well as subordinate courts at all levels must be organized in accordance with the spirit of the autonomy of judges as prescribed by law.

#### Section VIII. Local Autonomy

Article 90. Municipalities and counties, urban areas, townships, and towns are locally autonomous bodies.

The National Assembly may establish in law locally autonomous bodies at the same level as municipalities and counties or urban areas, townships, and towns.

Article 91. Except for matters specifically under central government jurisdiction and matters of a character that must be handled by the central government, locally autonomous bodies are authorized to handle personnel, fiscal, education, police, auditing, and other matters within their areas of jurisdiction. The central government may standardize in accordance with the law the matters that are to be under jurisdiction of locally autonomous bodies, using nationwide understandings and the understandings of regional adjusters as a guide, but this may not conflict with the aims of local autonomy.

Article 92. Locally autonomous bodies are to establish administrative organs and assemblies for the separate conduct of administrative affairs and legislative affairs.

The administrative head and members of the assembly of locally autonomous bodies are to be directly elected by the citizens of the individual areas.

Article 93. The citizens of locally autonomous bodies are to exercise the right of initiation and referendum in accordance with regulations drawn up by the assembly with regard to the jurisdiction of locally autonomous bodies.

Article 94. The division between locally autonomous bodies and the central government of fiscal receipts and

expenditures must be in accordance with the aims of local autonomy as prescribed by law.

The central government must readjust according to law the fiscal difference between cities and counties, and locally autonomous bodies at the same level.

The central government must suitably subsidize locally autonomous bodies facing hardship in the development of their economy, education, and culture, as well as areas for special development.

When the central government mandates locally autonomous bodies to handle matters under jurisdiction of the central government, it must provide all necessary funds.

Article 95. When the National Assembly is deliberating about bills pertaining to the local government system or local autonomy matters, it must solicit the views of locally autonomous bodies concerned.

Article 96. When the National Assembly passes laws having to do with the local government system or local autonomy matters, within 30 days after passage of the law, all locally autonomous organs at the same level may request vote by all the citizens of the country as prescribed below.

1. A resolution of two-thirds or more of municipalities and counties or locally autonomous bodies at the same level, or a motion from three-fourths or more of the administrative heads of municipalities and counties or locally autonomous bodies at the same level.

2. A resolution from one-half or more of urban districts, townships, or towns, or locally autonomous bodies at the same level, or a motion from two-thirds or more of the administrative heads of urban areas, townships, or towns, or locally autonomous bodies at the same level.

Special laws of the National Assembly applicable to designated locally autonomous bodies must be agreed to by the vote of the citizens of the concerned locally autonomous body before taking effect.

Article 97. Locally autonomous bodies may, according to the provisions of the law, propose bills about the local government system or local autonomy matters, requesting National Assembly consideration of them.

Article 98. The authority of locally autonomous body organizations and matters pertaining to their operation must be prescribed by law in accordance with the aims of local autonomy.

Article 99. When disputes arise between the central government and locally autonomous bodies about the scope or exercise of autonomy, or when doubts arise about whether laws violate the provisions of this section of the constitution, the constitutional law court must be asked to resolve them.

### Section IX. Aborigines

Article 100. Taiwan's aborigines include the P'ing-p'u nationality, the Shao nationality, the Sai-hsia nationality, the Tsou nationality, the Ya-mei nationality, the Piao-ma nationality, the Lu-k'ai nationality, the Toroko nationality, the Bu-nung nationality, the P'ai-wan nationality, the T'ai-ya-er nationality, and the A-mei nationality.

Article 101. The aborigines enjoy autonomy. Except for matters of national defense, foreign relations, judicial administration, and water resources, the aborigines have authority to decide political, land, economic, educational, cultural and related policies and government affairs within the areas under jurisdiction of their autonomous bodies.

Article 102. The central government must establish an agency specifically responsible for handling the affairs of aborigines, the head of which is to be an aborigine.

Funds needed for the development of aborigines' autonomy are to be provided for out of the central government budget.

Aborigine autonomous groups are to be established on the basis of the regional distribution of aborigines nationwide, each aborigine autonomous group choosing representatives to organize a national aboriginal people's assembly for the purpose of resolving matters pertaining to the autonomy of aborigines nationwide.

The organization and area of jurisdiction of aborigine autonomous groups, and the organization of an aboriginal people's assembly is to be prescribed by law.

Article 103. The National Assembly is to have five aboriginal members.

The aboriginal members are to form an aboriginal people's committee.

National Assembly bills pertaining to aborigines must first be referred to the aboriginal people's committee for consideration.

Article 104. Aborigines have the right to use their traditional names.

### Section X. Revision of the Constitution

Article 105. Laws that conflict with the constitution are null and void; decrees that conflict with the constitution or laws are null and void.

Article 106. Revisions of the constitution must follow the following procedures in being referred to the citizenry for a vote:

1. A motion by at least one-fifth and a yes vote by at least two-thirds of national assemblymen.
2. Joint signatures of at least 200,000 citizens and presentation of a complete constitutional revision article.

Citizen votes on the foregoing provision must be by more than half the electorate, more than half of valid ballots approving for it to pass.

Article 107. Once a formal bill for revision of the constitution has been passed in accordance with the next previous article, it is to be promulgated by the president.

### Section XI. Supplementary Article

Article 108. Following a vote by half the citizens with half of the valid ballots approving, this constitution is to become effective within six months.

**Banking Business Develops Steadily**

91CE0699A Hong Kong CHING-CHI TAO-PAO  
in Chinese No 29, 22 Jul 91 p 12

[Article by Wu Feng-xia (0702 7685 7209): "Hong Kong Banking Business Develops Steadily"]

[Text] In spite of the BCCI incident in July, the Hong Kong banking business has developed this year.

**Savings Deposits Continue To Increase**

Hong Kong government statistics indicate that by the end of May, deposits in the Hong Kong banking system totaled 1,262.717 billion yuan, an increase of 16.6 percent over 1990. This increase is higher than the estimated nominal 12.3 percent increase in the local gross value of production (according to the latest revised Hong Kong government projections, the increase in the local gross value of production was 3.5 percent, but the rate of inflation was 11 percent.)

In addition to the continuing increase of deposits, deposits within the year have the following characteristics: (1) Deposits continue to shift towards licensed banks. By the end of April, deposits in licensed banks had increased 20.6 percent over last year but deposits in the other two types of institutions that accept deposits decreased: limited license banks decreased 1.5 percent, and deposit acceptance companies decreased 13.7 percent. Compared to the same period last year, licensed bank deposits increased 3.7 percent, and the other two types of institutions that accept deposits decreased 7.8 percent and 11.3 percent, respectively. The market share of the deposit industry occupied by the licensed banks also increased from 93.8 percent at the end of 1990 to 94.5 percent at the end of April. This shows the strategic success of licensed banks in offering deposit products not subject to interest rate agreements. (2) Deposits continue to shift toward foreign currency deposits. Foreign currency deposits of the Hong Kong banking system grew faster than Hong Kong dollar deposits: by the end of May other foreign currency deposits increased 28.3 percent over the same period in the previous year and deposits of U.S. dollars increased 9.7 percent. The increase in Hong Kong dollar deposits was 12 percent. Thus, Hong Kong dollar deposits as a proportion of total deposits declined from 42.2 percent to 41.9 percent. A new situation has appeared in foreign currency deposits. Because the U.S. dollar grew stronger and interest rates declined, the growth of U.S. dollar deposits progressively diminished and by the end of May U.S. dollar deposits were lower than similar types of deposits in each month of this year, a decline of between 0.4 percent and 3.7 percent. This indicates that the attractiveness of U.S. dollar deposits has progressively weakened.

In terms of the loan business, the total amount of loans granted at the end of May was 1,896.5 billion yuan, an increase of 6 percent over the end of the previous year, and a large increase of 31.5 percent over the same period in the previous year. This is much higher than the 13.4

percent increase of the same period in the year before that. Of all the types of loans, loans for subsidized forms of trade increased 18.8 percent, much lower than the increase of overall loans. The increase in loans used here was even lower at 16 percent and also lower than the increase in the same period last year. However, the growth in overseas loans was very rapid, reaching 1,024.52 billion yuan, or about 54.1 percent of overall loans, at the end of May, an increase of 61.6 percent over the same period last year and becoming an important cause of the rapid expansion of the loan business.

**Foreign-Owned Banks Continue To Open for Business in Hong Kong**

In the first half of this year another foreign-owned bank obtained a banking license issued by the Hong Kong government and at the same time, several foreign-owned banks canceled their licenses because their parent banks merged or for some other reason. By the end of May, there were 165 licensed banks in Hong Kong. Interest among foreign investors in establishing limited license banks in Hong Kong increased steadily and last year there was a net increase of 10 such banks, by the end of May this year alone the total was 45 and even allowing for a reduction of two deposit acceptance companies, the total is 166. In addition, Taiwan's Huanan Commercial Bank obtained permission to establish a representative office in Hong Kong and became the first Taiwan bank to establish an organization in Hong Kong.

Since last year, the Bank Supervisory Office studied in depth problems of control over such areas as bank shareholders, large deposits, collective risk, and nonasset debts. In April of this year they issued a revised draft of the banking regulations further improving supervision and control of the banking industry. This year, banks have improved their self-discipline and their understanding of risk control.

**Prospects for the Next Six Months Are Still Excellent**

In terms of the current situation, the prospects for banking in the next six months and for an even longer period are excellent. The projections of local demand for trade financing and for credit for manufacturing will clearly increase progressively, primarily for the following reasons:

(1) The economies of the primary European and American markets have begun to recover from the recession and market demand will increase. The conclusion of trade agreements between Hong Kong, Europe, and the United States will help firms get orders and make investments. The revival of the economy will naturally increase demand of banking services.

(2) Prospects for growth in Hong Kong real estate are ideal. Hong Kong's plans to build a new airport not only will help the medium- and small-scale residential market continue an already good period of prosperity even longer, but also might stimulate the commercial and luxury residential market to continue to improve. With



regard to residential buildings, based on loans and the amount of credit to construct buildings, make up a very large proportion of the total value of bank loans, therefore if the real estate market makes a comeback, the capital outflow of banks will undoubtedly increase

(3) The signing by China and the United Kingdom of a memorandum of understanding concerning the construction of a new airport in Hong Kong and related issues eliminated misgivings on both sides so that ten key construction projects will get under way as soon as possible. Since the capital construction will take several years, it may stimulate internal demand and economic growth, and not only will banks earn some profit in retail business, the enormous rongzi [5816 6327] plans will also benefit. In fact, relevant authorities have accepted participation and investment by private organizations in developing certain parts of the new airport project, and this large-scale investment may very likely require bank consortium credit underwriting. Some companies have even spurred growth of business among businessmen or investment banks by beginning to raise capital in the stock market. In addition, the Hong Kong government may issue HK\$5 billion in bonds to support capital construction plans and this may invigorate the capital market in Hong Kong dollars.

(4) The growth trend in China's internal economic development is excellent, but the recent severe natural disasters have damaged economic development. It is estimated that future key construction expenses will be poor. If Hong Kong can supply services to China, it will add a market with considerable potential.

In addition, activity of international financial capital investment in Hong Kong will improve again and foreign investment banks will continue to open for business in Hong Kong and increase the further pluralization of Hong Kong's banking industry.

But in the development process, some problems must be faced. If Hong Kong's large enterprises and international banks are still in trouble, international commercial credit banks may face examination of accounts due to involvement of overseas parent companies.

If near-term profit rates are unstable, the Hong Kong government will increase the interest rate, and if inflation slows after a month, they will immediately reduce the interest rate. Instability of the rate of profit will increase the difficulty of doing business.

In addition, one should also note that in the first half of this year the growth in deposits declined month by month. The decline in the growth of deposits in Hong Kong dollars was more rapid, going from an increase of 17.5 percent at the end of January to a decline of 12 percent by the end of May. At the same time, the ratio of Hong Kong dollar loans continue to rise, from 116 percent in January to 124 percent in May, causing the cost of capital to rise for banks in the same trade market.

### Taiwan Bank Opens Branch at Trade Center

91CE0699B Hong Kong CHING-CHI TAO-PAO  
[ECONOMIC REPORTER] in Chinese No 29,  
22 Jul 91 pp 6-7

[Article by Li Kuo-pao (2621 0948 1405), Member of the Board of Directors and Chief Executive Officer of the East Asia Bank: "The Significance of Taiwan Banks Establishing Branches in Hong Kong"]

[Text] **Introduction** Recently, Taiwan's Hua-nan Commercial Bank announced that it had received permission to open a representative office in Hong Kong and has decided to open for business formally this August in Hong Kong's "Taiwan Trade Center." This is the first time a Taiwan financial institution has obtained permission to establish a representative office in Hong Kong. This has great significance for developing relations between Hong Kong, Taiwan and both sides of the Straits.

**Significance for Hong Kong** Hong Kong is the world's third largest financial center. By the end of 1990, 155 of the world's 500 largest banks had opened representative offices in Hong Kong. The establishment of a representative office in Hong Kong by a Taiwan bank further consolidates Hong Kong's position as a world financial center.

On the other hand, the scope of business of the Taiwan bank's representative office in Hong Kong is the same as the representative offices of other foreign financial institutions: it can only conduct information gathering and market analysis and cannot engaged in comprehensive banking services. Thus at the present stage, the Hong Kong representative office of a Taiwan bank cannot affect the intermediary position of Hong Kong banks in Chinese and Taiwan trade, investment and currency exchange. But, it can stimulate Taiwan businessmen's desire to invest on the mainland and when the mainland market expands, Hong Kong banks not only can profit from it, but can also improve Hong Kong's role as a bridge in economic cooperation across the Straits.

**Significance for Taiwan** For Taiwan, this action is well suited to its pace of accelerating financial liberalization and internationalization that began in the late eighties. The process of internationalization, on the one hand allowed foreign financial institutions to open for business on Taiwan and at the same time, allowed Taiwan banks to engage in various financial activity abroad. Thus, the establishment of a Taiwan bank's representative office in Hong Kong is actually an important tactic in Taiwan's plans to expand international financial business.

On the other hand, since the enormous favorable trade balance Taiwan developed in the 1980's was equivalent to 20 percent of the GNP, the foreign exchange deposits were the largest in the world, exceeding \$70 billion. To calm dissatisfactions of countries with negative trade balances, reduce the international balance of payments

deficit, and check the pressure of rising foreign exchange rate and the rate of increase of the supply for foreign currency, the best course of action was for Taiwan business to search for opportunities to invest abroad. Thus for Taiwan bank to establish a representative office in Hong Kong clearly reveals the motives of Taiwan business to invest in growth abroad.

Although the Taiwan bank's representative office in Hong Kong cannot engage in comprehensive banking services for the time being, when the time comes, conditions ripen, and everything is in accord with stipulations, Taiwan's representative office can apply to upgrade to branch bank status. If their bank license is approved, the Taiwan bank can freely offer all banking services. Since Taiwan's economy is in a transitional stage, Taiwan is looking for new international markets and places for investment and is paying special attention to Mainland China markets. And in fact, the Hua-nan Bank is also setting up the Hong Kong representative office to handle Mainland trade credit for Taiwan business in the future. Thus, for a Taiwan bank to set up a representative office in Hong Kong has far-reaching significance for trade and investment of the China and Taiwan.

#### Significance for Relations on Both Sides of the Straits

With the progressive relaxation of the hardline policies of China and Taiwan in the past few years, relations on both sides of the Straits have become closer. Thus, indirect trade between the two conducted on through Hong Kong has developed very rapidly, with trade volume growing from HK\$7.453 billions in 1986 to HK\$31.54 billions in 1990.

Since Taiwan investment on the mainland in recent years began, the number of projects has progressively increased, and required that large quantities of Taiwan raw materials be imported to the mainland for processing. In addition, the mainland market has eagerly demanded Taiwan products, so that by the first quarter of this year bilateral trade had reached HK\$8.487 billions, an increase of 38 percent over the same period last year.

#### Indirect Trade Through Hong Kong Between the Mainland and Taiwan in the Last Five years

	HK\$ (millions)	Rate of Growth (%)
1986	7,453	-13
1987	11,820	59
1988	21,224	80
1989	27,171	28
1990	31,540	16

Source: Hong Kong Statistical Bureau, Hong Kong Foreign Trade

On the other hand, with the proliferation of indirect trade between China and Taiwan, the exchange currency situation between the two places will begin to increase, but at the present stage, Taiwan still prohibits direct

currency exchange across the Straits so mainland remittances must be carried out through foreign banks. At the present stage, even if Taiwan banks set up branches in Hong Kong they still cannot function as intermediaries in currency exchange across the Straits. Nevertheless, the Central Bank of Taiwan is considering approval of a Hong Kong regional financial institution with investment from Taiwan or the mainland not to exceed 50 percent to serve as an intermediary bank for currency exchange on both sides of the Straits. In other words, the Hong Kong representative office or branch of a future Taiwan financial institution may very well be able to follow this path to develop currency exchange business on both sides of the Straits. Thus, a Taiwan bank's establishment of a representative office in Hong Kong in essence is to pave the way for continuing to maintain close trade and investment relations between the two sides of the Straits.

**Conclusion** With the Hua-nan Commercial Bank in Hong Kong, the Taiwan Chang-hua Bank and the Taiwan First Bank also will plan to set up representative offices in Hong Kong, and I believe that in the future more Taiwan banks will follow in their footsteps. This trend not only has significance for making Chinese, Hong Kong and Taiwan relations closer, but also reveals that with improved cooperation between these three, and that they will play a decisive role in the economic system of the Asian and Pacific Region.

#### Reform of Executive Council Advocated

91CM0535C Hong Kong MING PAO in Chinese  
2 Aug 91 p 60

[Article by Li Chu-ming (621 2691 6900), chairman of the Hong Kong United Democratic Alliance: "Executive Council Should Change the Method of Operation"]

[Text] Along with the introduction in September of 18 seats in the Legislative Council, elected for the first time through popular votes, Hong Kong will enter a new era. The British Government will once again face the same problem as when other colonies were separated from its control. When the Legislative Council, at least a part of it, is elected through popular votes, how can a colonial administrative organ, which is not elected, maintain its legality and continue effective control?

To solve the dilemma, the Hong Kong British Government should carefully study the structure of the Hong Kong Government, especially the relationship between the Executive and Legislative Councils, and set up a system to ensure that during the critical transitional period Hong Kong has an efficient government that is responsible to the public.

As a matter of fact, the Hong Kong British Government needs to decide between two choices. The first choice is to make the Executive Council a place of cooperation for major Hong Kong political groups to ensure that all the decisions made by the Executive Council are widely supported by the public. By so doing, the Executive

Council must abandon the current collective responsibility system, namely it does not need to demand that all of its members always support its policies in the public.

If the Hong Kong British Government insists on keeping the collective responsibility system of the Executive Council, the second choice is for the Executive Council to ensure that all decisions are supported by most elected council members. This system is similar to the British cabinet system.

Under the current Hong Kong Government structure, the governor of Hong Kong together with the Executive Council is the highest policy-making body of Hong Kong. The role of the Executive Council is not only to support the colonial government, but also to ensure that all the policies of the government are in the best interests of Hong Kong residents.

After the September election of the Legislative Council, there will be legislators and political group representatives who have made public their political platforms and have won popular support with them. By that time, if the Legislative Council hopes to ensure that its policies are in the public interest and supported by the people, it needs to include these people's representatives in the policy-making process.

After the election, the Hong Kong British Government should also seriously consider appointing into the Executive Council the representatives of organizations that have most popular support such as democratic parties, commercial organizations, and organizations supported by Beijing. Therefore, the government should also cooperate closely with similar organizations to promote policies which have broad popular support.

Policy proposals endorsed by the representatives of the abovementioned organizations have a very good chance of gaining the direct support of the Legislative Council. In this way, related bills and tax measures will be passed smoothly. Otherwise, if any of the abovementioned organizations are rejected in the policy-making process, it will cause confrontations and create obstacles to legislative work. Since legislative work needs cooperation and coordination, it is necessary to introduce the cooperative relationship in the policy-making process instead of starting such work after bills are drafted and submitted to the Legislative Council.

A real crisis of the Legislative Council would occur if the Hong Kong British Government does not allow popularly elected legislators to enter the Executive Council. If the Executive Council with a narrow popular basis would adopt some policies which are challenged by most directly elected legislators, the public would think that the Executive Council tried to safeguard only the interests of the colonial government instead of emphasizing the interests of Hong Kong residents. This would cause the Executive Council to lose prestige in the eyes of the people and eventually would cause grave damage to the government and Hong Kong as a whole.

To give the Executive Council broad representation, the Hong Kong British Government should change the current collective responsibility system of the Executive Council. The collective responsibility system practiced in democratic countries is based on the general principle that administrative officers are empowered by the public through election. In every election, the ruling party reveals to the public its political platform, and the people endorse a relevant political platform by voting. So, after a premier or president is elected, he has a reason to believe that the ministers he appointed would respect his right to promote government policies and also that no minister would criticize his colleague's decisions.

However, in Hong Kong things are different. In Hong Kong since the governor does not have a popular basis, his situation is different from the relationship between a premier and cabinet members in a democratic country. Executive Council members in Hong Kong do not have the responsibility to promote government policies that cabinet members in Western countries have, but legislators who are created by democratic procedures should be responsible for reflecting voters' opinions once they enter the Executive Council. Even if such opinions differ from the majority opinions of the Executive Council, popularly elected members should still attend to them and speak out for their voters.

If the Hong Kong British Government is willing to follow democratic countries and implement the collective responsibility system, it must introduce the entire set of mechanisms. Just as the Hong Kong United Democratic Alliance suggested, it must guarantee that the Executive Council's decisions are supported by the majority of the 18 legislators who are directly elected. In this way, the Executive Council's decisions will gain the support of most people's representatives, and relevant decisions will be regarded as in the public interests.

As for the security regulation of the Executive Council, it does not constitute a major problem. First of all, if the Executive Council's discussion involves classified materials, members of the Executive Council, like the members of a national security committee of a congress in Western countries, need to pledge to secrecy. Of course, council members must respect the right to privacy of other members who expressed personal views at meetings.

What is very important is that in former British colonies such as India, Malaysia, Ghana, and Kenya, when dealing with the issue of development of constitutional system, the British Government usually introduced the political groups with most popular support into the executive body after first general elections. This policy injected much-needed stability and legal basis into the later periods of the governments of the abovementioned colonies.

Although Hong Kong is not like other British colonies which eventually became independent, according to the Sino-British joint declaration, Hong Kong will be a local government enjoying democracy and independence. Because of this, Hong Kong, too, needs a government with a broad popular basis.

In sum, the next six years and the years after 1997 will be one of the many challenges facing Hong Kong. The more the Hong Kong Government can convince the people that it represents the people, the better it can take up these challenges.

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